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ENHANCING WOMEN'S RETIREMENT SECURITY

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BEFORE THE

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ENHANCING WOMEN'S RETIREMENT SECURITY

WEDNESDAY, JULY 25, 2012

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The Committee met, pursuant to notice, at 2:04 p.m., in Room SD–562, Dirksen Senate Office Building, Hon. Herb Kohl, chairman of the committee, presiding.

Present: Senators Kohl [presiding], Blumenthal, and Corker.

OPENING STATEMENT OF SENATOR HERB KOHL, CHAIRMAN

The CHAIRMAN. Good afternoon, everybody. We'd like to thank our witnesses and welcome all the rest of you to today's hearing. Today we are here to examine the challenges women face in working to achieve retirement security. In 2010, women over 65 were nearly twice as likely to live in poverty as men. Reasons for this are many. On average, women live longer than men, they make less money than men, and they are more likely to move in and out of the workforce to care for family members, which reduces their opportunities to contribute to a pension plan or Social Security.

This committee asked the Government Accountability Office and other interested parties to explore this problem and recommend ways to reduce the risk many women have of outliving their savings and falling into poverty. The most popular answer involved improving Social Security benefits, which women disproportionately depend on for their retirement income. This means that as Congress addresses Social Security's pending insolvency, we must also work to modernize the program to ensure it remains a safety net for those most in need.

The GAO report explores many of these options and we'll hear from several witnesses about possible changes. One bipartisan solution that should be included in any reform package is to enhance the special minimum benefit. This can be done at a reasonable cost and it would help ensure that career low wage earners who have little opportunity to save on their own can avoid being stuck in poverty throughout their retirements.

But what about women who are close to retirement now? For them, the GAO report recommends one decision that many perhaps do not even consider, namely waiting to claim these retirement benefits. Deciding when to take Social Security benefits is one of the most important financial decisions a person can or will make in retirement.

Currently the majority of women claim benefits at 62, the earliest age possible. Only 18 percent wait until their normal retirement age of 66 or later. This option is not for everyone. Some have health concerns and others may be unemployed or have very little money that they've saved. However, if you can delay and you don't, you will be leaving a lot of money on the table. A woman who might be expected to get $1,000 a month at 66 gives up $250 every month for the rest of her life if she files to take the benefits, not at 66, but at 62.

On the other hand, if she waits until she's 70, then she'll be looking at a monthly benefit of $1320. That would be an additional $570 for the rest of her life if she delays her benefit from 62 to 70. A recent study from the Center for Retirement Research called this strategy to delay benefits "the best deal in town."

SSA has a responsibility to educate people about their options and it needs to make sure people understand just how much money they are losing when they take their benefits sooner rather than later. We'll be asking SSA today about its approach and its overall efforts to educate the public about their options.

We thank you all again for being here. We'd like to give a special thank-you to the various aging and women's organizations that have been sharing their insights with our committee on ways to improve women's retirement security.

We turn now to the ranking member, Senator Corker, for his remarks.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. Thank you, Mr. Chairman, for calling this hearing, and to all of you as witnesses for being here.

I do think it's a very, very important issue. As I travel around the country and my own State, I worry about people being prepared for retirement, especially women, who in many cases, for lots of reasons, haven't focused as much on it as should be the case.

I think we're going to have an opportunity, Mr. Chairman, to deal with this special minimum benefit, I really do, and I think there is bipartisan support for something like that, and I appreciate your bringing it up. I hope as part of any package, budget package or fiscal reform package that we deal with over the course of the next six months, year and a half—I hope it's on the front end of that—I do think that Social Security reform should be a part of that and hopefully will be a part of that. And my sense is the special minimum benefit that you're talking about very much should be a part of that also. So I appreciate your bringing that up.

One of the most responsible things that we could do here is actually do those things to make Social Security solvent for the long haul. But I think making people aware of the options that exist and certainly the ones you pointed out about deferral until a later age, but also hopefully causing people throughout our society, in this case especially women, to focus on the standard of living that one's going to have without focusing on this, and hopefully moving people towards this particular issue.

So I thank you very much. I've got—we've got a little LIBOR issue that's cropped up over the last couple weeks and I've got a conflict with one of my other committee responsibilities and I will not be here for the entire hearing, but our committee staff is here. We thank you for being here. We certainly have read your testimony or will read portions that we haven't seen yet. Again, thank you.

The CHAIRMAN. Thank you. Thank you, Senator Corker.

Introducing our witnesses, the first witness today will be Barbara Bovbjerg, Managing Director of Education, Workforce, and Income Security Issues at the U.S. Government Accountability Office.

Next we'll be hearing from LaTina Burse Green, Assistant Deputy Commissioner in the Social Security Administration Office of Retirement and Disability Policy.

Then we'll be hearing from Kelly O'Donnell, Vice President of Financial Engines, the Nation's largest registered investment adviser, helping more than 600,000 workers manage their 401(k) accounts.

Next we'll be hearing from Sabrina Schaeffer, Executive Director at the Independent Women's Forum, a nonprofit aimed at promoting limited government and free markets.

Finally, we'll be hearing from Joan Entmacher, Vice President for Family Economic Security at the National Women's Law Center. She directs the nonprofit's program to improve policies affecting the economic security of low income women.

Thank you all for being here. Barbara, we'll start with you.

STATEMENT OF BARBARA D. BOVBJERG, MANAGING DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Ms. BOVBJERG. Thank you, Mr. Chairman, Senator Corker. I'm pleased to be here today to discuss the challenges women face in attaining a secure retirement. I'm especially pleased to be here in advance of your own retirement, Mr. Chairman, later this year so that I can thank you for your leadership on issues affecting older Americans. This committee has achieved a great deal under your leadership——

The CHAIRMAN. Thank you.

Ms. BOVBJERG [continuing]. And we'll miss you.

The CHAIRMAN. Thank you.

Ms. BOVBJERG. My testimony today will present the results of our work for this committee on women's retirement security. Our analysis examines four aspects of the topic: women's access to and participation in employer-sponsored pensions; the retirement income women receive and its sources; how later in life events may affect women's retirement; and the policy options available to help. Our report, which is being released today, uses a variety of Federal data sources and models that we developed.

First, women's access to pensions. Over the last decade, working women's access to and participation in employer-sponsored pension plans improved. In fact, women even surpassed men in their likelihood of working for an employer who offers such benefits, although this results in part from a simultaneous decline in men's pension coverage.

Despite women's greater likelihood of having access to a pension, they were slightly less likely than men to participate in such plans, although the gap between men's and women's participation has narrowed. Differences in men's and women's earnings are thought to play a significant role in these continuing participation disparities.

As for women's retirement income levels and composition, in the last ten years women age 65 and over consistently had less retirement income and higher poverty rates than men. Groups of the lowest median incomes and highest poverty rates included single women, women over the age of 80, and non-white women. Still, the composition of women's retirement income has been fairly stable, largely because women are likely to receive income from Social Security and from defined benefit pension plans, and these have been shielded from market fluctuations. Although stability is a good thing, in the end women still have significant fewer resources later in life than men.

So let me now turn to late in life events and their differential effects on men and women. Divorce, the death of a spouse, health decline, and unemployment all had detrimental effects on wealth and income for both men and women nearing or in retirement. Divorce and widowhood, however, have more pronounced effects on women. Our analysis shows that after divorce or separation, women's household income fell by 41 percent on average, almost twice the 23 percent decline for men in the same situation. Widowhood has a similar disparity, with women's income falling by 37 percent and men's by 22 percent.

What options are available to address these disparities? Well, experts we interviewed identified 22 policy options that could address some of the challenges older women face. Generally, these included tax incentives to save, improved Social Security benefits, strengthened spousal protections, and encouragement to save longer and retire later, among other strategies.

But these options bring difficult choices. For one, all have cost implications that would need to be considered, and many of those costs would fall on the Federal Government, although some are also spread across workers and their employers. Although all the options would aid women in retirement, many would aid men as well by focusing on income security more than on gender, which is not a bad thing.

Retirement security continues to be a national dilemma that by and large transcends gender. Recent economic volatility, coupled with the continued shift toward defined contribution plans, exposes all workers to more financial risk than in previous generations. And women's gains relative to men were aided in part by men's loss of retirement security over the last several years. So clearly this is a problem for all Americans.

But our work highlights that women face a unique set of circumstances that warrant special attention. In particular, divorce or widowhood occurring late in life can be disproportionately devastating to women's retirement security. Efforts to improve retirement prospects for women will almost necessarily need to focus on a response to such events. Our work offers various options that could help address this problem, a problem that will become increasingly urgent in our aging society.

That concludes my testimony. I'd be happy to answer any questions you have.

The CHAIRMAN. Thank you very much.

LaTina Burse Greene.

STATEMENT OF LATINA BURSE GREENE, ASSISTANT DEPUTY COMMISSIONER FOR RETIREMENT AND DISABILITY POLICY, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Ms. BURSE GREENE. Chairman Kohl, Ranking Member Corker, and members of the committee: I appreciate this opportunity to speak to you about the importance of the Social Security retirement decision and how it affects women. We take our responsibility to provide complete, relevant, and understandable information about benefit options very seriously. Our role is to help ensure that the American people have the information they need to make informed decisions about retirement.

Social Security is particularly important to women for several reasons, as you've already mentioned. First, women tend to live longer than men. Second, they generally have lower lifetime earnings. And third, women often retire with smaller income from other retirement programs and personal savings.

Although individuals with identical earning histories receive the same benefits, some elements of our program are specifically helpful for women. For example, the Social Security benefit formula helps women because it is structured to more fully replace the earnings of lower wage earners. Women's greater life expectancy makes the automatic cost of living adjustment especially important.

Our program also provides benefits for family members of retired, disabled, and deceased workers. Thus, in addition to benefits as a retired or disabled worker, women may receive higher benefits as a spouse, divorced spouse, or widow due to their lower lifetime earnings.

Choosing when to retire will determine the amount of Social Security benefits a person will receive for the rest of his or her life and also can affect the benefits paid to his or her spouse. Our policy is to provide complete and accurate information—not advice—to assist claimants with making a personal decision on when to retire without influencing them in any particular direction. Regardless of how a person chooses to file for retirement, be it face to face, telephone, or Internet, we offer the same pertinent information. We provide information about the monthly benefit amounts payable at various ages, such as the earliest possible month of entitlement, at age 62, at full-retirement age, at age 70, or any other age the person requests. We inform them how earnings can affect their benefits. We also explain other benefits that may be available, such as benefits that could be payable to a spouse or to a child.

When people ask us, what is the best age to start receiving retirement benefits, we tell them there is no "single best age" and that ultimately it is their choice. It is a personal decision that should be based on a number of factors, such as their cash needs, their health and family longevity, whether they plan to earn employment income in retirement, whether they have other retirement income, whether others are financially dependent on them, and of course the amounts of their future Social Security benefits.

We are proud of the online tools we have developed to help people navigate the complexities of their retirement decision. The Social Security Statement, available online since May 1st, provides projections and estimates of retirement, disability, and family and survivor benefits. Our retirement estimator is a calculator that provides immediate and personalized retirement benefit estimates. Our life expectancy calculator is another simple but important tool to assist the public with retirement planning.

We also make available a number of print resources aimed at helping women with their Social Security decisions, including a fact sheet entitled "Social Security Is Important to Women." Publications such as "What Every Woman Should Know" and "Understanding the Benefits" are also available. These publications are available through our 800 number, in our field offices, and can also be downloaded from our web page at www.socialsecurity.gov/women.

Our financial literacy, retirement security, and education initiatives to encourage saving are useful to women who are planning for retirement now. We participate in pre-retirement seminars and other forms to provide information targeted towards women. For example, this coming Saturday we will be participating in a public program in Chicago hosted by the Department of Labor that will include panel discussions on how women can better manage and protect retirement savings and what to look for in the retirement marketplace. We will continue to help the public make well-informed retirement decisions.

In closing, Chairman Kohl, we are especially grateful for your leadership and your many years of support of our program. Thank you again for inviting me to testify today and I look forward to answering any questions you may have.

The CHAIRMAN. Thank you very much.

Kelly O'Donnell.

STATEMENT OF KELLY O'DONNELL, VICE PRESIDENT, FINANCIAL ENGINES, BOSTON, MA

Ms. O'DONNELL. Good afternoon. I'd like to thank the Senate Special Committee on Aging for this opportunity to provide testimony. My name is Kelly O'Donnell and I am a Vice President at Financial Engines. Co-founded in 1996 by Nobel Laureate Bill Sharpe, Financial Engines works with America's leading employers and retirement plan providers to make retirement help available to over 8 million 401(k) plan participants. We are not a fund manager, nor do we offer any investment products. We are an independent provider of investment advice and discretionary asset management services.

The median 401(k) account balance we serve is $41,000. Our newest offering, Income+, helps retirees turn their 401(k) account into flexible but steady payouts that can last for life.

Women and retirement security is a very personal topic for me. My father unexpectedly passed away last November and helping my mother plan for steady income for the rest of her life has been complex and challenging, even for a financial professional like myself.

In my testimony today, I will focus on three key points: First, helping individuals, especially women, maximize their income in retirement is imperative. For most individuals, it is hard enough to save and invest in the years before retirement. It is even more difficult to know how to draw down the assets so you don't run out of money in retirement. Employers are slowly beginning to offer retirement income solutions within 401(k) plans to help. The range of 401(k) income solutions available today includes annuities as well as managed account services, such as Income+. Exhibit 1 provides an overview of these solutions and their utilization.

We developed Income+ to help all individuals, but the biggest need is among women. Not only are life expectancies longer for women, but women typically have accumulated much less when they reach retirement age. Among our clients age 60 or older, the median 401(k) account balance for men is $82,000, yet only $46,000 for women. Clearly, more needs to be done to help women. Income solutions that merely annuitize retirement accounts will not be sufficient.

My second point is that for women the financial impact from optimal Social Security decisions can exceed 401(k) savings. Women uniquely benefit from good Social Security decisions since life expectancy for women is greater than for men. When claiming is maximized, it can significantly increase the amount of income a woman will have in retirement. For married women, optimal household Social Security strategies result in a much higher benefit for the surviving spouse, in some cases 76 percent higher. Since the surviving spouse is more likely to be a woman, maximizing Social Security plays a major role in creating income security for women. Based on our analyses, optimal Social Security decisions can in many cases create more retirement income wealth than a woman has accumulated in her 401(k) account.

My last point is deferring Social Security is often the best way to make a big impact with a small 401(k). However, for women to realize these benefits they need more help. Employer involvement is critical. The challenges in getting individuals to defer Social Security are formidable. There are awareness and behavioral challenges, and figuring out an optimal strategy is complicated and personal.

However, deferral challenges can be overcome if there is help with how to use a 401(k) or IRA as an income bridge. For many, this may be the best use of a small retirement account. I have been involved personally in testing with employers and participants the application of Income+ so that 401(k) payouts are higher in the early years of retirement, thereby allowing Social Security deferral. We are very encouraged at the reaction we are getting from both groups.

Employers are crucial to bringing this type of help to the broadest number of people. Aside from Social Security, 401(k) plans represent the largest source of potential retirement income for millions of American workers. The scale economics of 401(k) plans make it not only possible to bring institutionally priced products and advice to participants, but also sponsors' fiduciary oversight to help ensure participant interests are protected.

In conclusion, we urge more to be done to encourage employers to provide retirement income help, including help with Social Security strategies, for their employees. Every day tens of thousands retire. More than half are women. Most over 62 will start taking Social Security within two months of leaving the workforce, a decision that is irrevocable. Women stand the most to gain by better Social Security decisions and more help with maximizing their retirement accounts.

I would like to once again thank the committee for this opportunity to provide testimony.

The CHAIRMAN. Thank you very much.

Sabrina Schaeffer.

STATEMENT OF SABRINA L. SCHAEFFER, EXECUTIVE DIRECTOR, INDEPENDENT WOMEN'S FORUM, WASHINGTON, DC

Ms. SCHAEFFER. Thank you, Chairman Kohl and Senator Corker. I appreciate you reaching out to the Independent Women's Forum and inviting me today to appear before you to testify on an issue that is so important to the country and so critical to both men and women. I'm Sabrina Schaeffer, the Executive Director of the Independent Women's Forum, the only women's think tank focused entirely on economic liberty. Our mission is to expand the number of women who understand and value the benefits of limited government, free markets, and personal responsibility.

My interest in Social Security stems from research I conducted in graduate school at the University of Virginia and has continued throughout the last 12 years I've been here in Washington.

I think we all agree that we need to make certain that any new system that is put in place preserves Social Security's promise and protects the most vulnerable members of society, many of whom are women. Clearly that means protecting the benefits of current seniors and those approaching retirement. It also means protecting the benefits of low income workers so that Social Security fulfills its promise of keeping seniors out of poverty.

But we need to think seriously not only about how the system will affect those of us working today, but also how it will impact the workers of tomorrow. Today I want to discuss some of the problems with the current system, specifically the challenges it poses for women.

Women are a particularly disadvantaged group as a result of the program's antiquated defined benefit system. The fact is Social Security's benefits structure has remained largely unchanged since it was established in 1935, but the same, of course, cannot be said for women's role in society. Social Security's benefit formula is a relic of an era when many more Americans were part of a traditional single-earner family in which the husband was the breadwinner and women worked solely within the home. Today, however, a minority of Americans lives in this family structure. Most women, married and unmarried, work outside the home. Many women are putting off marriage and childbearing until much later in life. Others never marry and divorce, unfortunately, is far more common.

At its core, the current benefit structure remains highly regressive. As a result, many women lose out under Social Security's calculations. Consider, for instance, the problem of the outdated dual-entitlement rule. The architects of Social Security designed the program so that at the time of retirement the spouse with the lower lifetime earnings, usually the wife, would receive either a benefit equal to her own earnings or half of her spouse's benefits. At a time when far fewer women worked outside of the home, this may have made sense, but today this means that the stay-at-home spouses who are not contributing financially to Social Security are benefiting at the expense of women working outside of the home, who continue to be required to pay Social Security taxes but don't necessarily receive any additional benefits.

In 1935 divorce was far less common than it is today. Still, the structure of the program has not kept pace. Divorced women then and now must have been married for ten years in order to receive Social Security benefits based on their former husband's earnings. Again, this may have seemed generous in the 1930s, but today millions of women who find themselves in bad marriages are penalized by this policy.

Social Security also fails many single women. A single mom, for example, who has paid Social Security taxes her whole life will leave her adult children only Social Security's paltry $255 death benefit. So her years of work and thousands put into the system will have been for nothing.

Single working women and men without children who die prematurely receive the harshest punishment of all: The state reclaims all of their contributions to Social Security without the option to leave savings to other relatives, friends, or charity.

So at a time when women outperform men academically, are soaring to the top of nearly every professional arena, and are increasingly becoming the breadwinners, we need to recognize that the antiquated view of Social Security is not the best we can do for women, and the fact is gender imbalance is a serious liability of the current system.

Where IWF differs from many other women's organizations is that the solution for women is not more wealth distribution. Rather, women need a retirement plan that reflects the changing roles of women and the American family in the 21st century. There are several different options for helping to make the current system sustainable, but making the current Social Security system sustainable shouldn't be the only goal of reform. Ultimately, policymakers must consider how to move toward a system that allows people, both men and women, to save and invest on their own and gives them the greatest flexibility.

It's wonderful to hear what's happening in the private sector to help individuals save for retirement. When it comes to the Social Security system, I think individual retirement accounts are still one more way that we may consider how men and women can own and control their savings, bringing much higher rates of return that they can pass on to family or to charity.

In the end, it's important to remember that women want what we all want today, the freedom to save and invest in a way that reflects the needs of their individual family and plans for the future.

The CHAIRMAN. Thank you very much.

Joan Entmacher.

STATEMENT OF JOAN ENTMACHER, VICE PRESIDENT AND DIRECTOR, FAMILY ECONOMIC SURVEY, NATIONAL WOMEN'S LAW CENTER, WASHINGTON, DC

Ms. ENTMACHER. Chairman Kohl, thank you for inviting me to testify on behalf of the National Women's Law Center and for your leadership throughout the years on issues affecting older women. It's a pleasure to have the opportunity to talk about ways to make Social Security, the foundation of women's retirement security, even better.

But before I talk about possible enhancements, I would say: First, do no harm. It's disturbing that Social Security is on the table in deficit reduction talks and that cuts have been proposed to benefits that average just $12,100 a year for women 65 and older. The Bowles-Simpson plan, for example, includes three painful cuts to Social Security. It would reduce the annual cost of living adjustment by switching to the chained CPI. A COLA cut gets deeper every year, so it hits women, who generally live longer, harder. It would raise the retirement age to 69 and every year added to the retirement age represents a 7 percent across-the-board benefit cut. Third, it would change the benefit formula. The formula cuts would be deepest for middle and upper income workers, so they've sometimes been called progressive, but in fact they would affect workers with average earnings as low as $10,000 a year.

Now for improvements. I'll be outlining four proposals to enhance Social Security. I'll also talk about reforms to Supplemental Security Income, SSI, our existing safety net program for poor elders that is in desperate need of modernization.

One important Social Security reform is to improve the special minimum benefit. I was delighted to hear the bipartisan interest in that benefit improvement. I would simply point to my written testimony, which identifies specific ways of doing that, but add this caution, that if that improvement is simply a way to mitigate cuts such as those that are in some plans like the Bowles-Simpson plan, it might end up mitigating the harm, but not really making people better off, which should be the goal of enhancing this benefit.

Second, provide credit for caregiving. As you've mentioned, as have other witnesses, women are still more likely to take time out of the labor force for caregiving. Social Security doesn't directly credit those years. It recognizes it only indirectly through the benefits for wives and widows, and that's an imperfect way of doing it. So one proposal would give workers up to five years of credit for caregiving, computed at 50 percent of the average wage.

Third, create an alternative benefit for widows and widowers. Make it equal to 75 percent of the couple's combined worker benefits, instead of simply the higher benefit of either. This would improve both the adequacy of benefits for a surviving spouse and the equity of benefits between single-earner and dual-earner couples. It could be capped to target the proposal to low and moderate income earners and reduce the cost.

Fourth, use the Consumer Price Index for the Elderly to determine the COLA for Social Security and SSI. The CPI–E is a more accurate measure of inflation for the elderly because it takes account of their spending patterns, which are twice as high on health care costs, where inflation is much higher than for costs generally.

Because of the focus of this hearing, I've highlighted improvements to Social Security retirement benefits that are especially important for women. But a complete reform package should consider other issues, such as improving benefits for people with disabilities, restoring and improving the student benefit, ending discrimination against same-sex couples, and increasing benefits broadly to improve retirement security for many Americans who have increased—are at increased risk.

Finally, turning to SSI, this means-tested program provides basic income support to the elderly poor and children and adults with disabilities. Two-thirds of all SSI beneficiaries 65 and older are women. Congress needs to consider SSI when it thinks about retirement security for women to ensure that the poorest beneficiaries, who get benefits from both programs, actually are made better off by improvements to Social Security benefits and are not made worse off because they lose Medicaid eligibility.

More generally, SSI urgently needs to be updated. For example, it includes a $20 a month disregard for Social Security benefits. This means that for every dollar in Social Security benefits above $20 a month, they lose a dollar in SSI benefits. This $20 disregard has not been changed in the 40 years since SSI was created. People are ineligible for SSI if they have more than $2,000 in assets for an individual or $3,000 for a couple. This limit is nearly 30 years old.

Since Social Security was created 75 years ago, it's been improved several times by Congress to make it better for women. I'm glad this committee is considering continuing that proud tradition, and thank you again for this opportunity to testify.

The CHAIRMAN. Thank you very much.

Ms. ENTMACHER. Thank you.

The CHAIRMAN. We'll start with you, Ms. Bovbjerg. You recommend in your report that SSA educate people about the advantages of waiting to file for benefits. But are there people for whom waiting is a bad idea? What is the benefit for the rest of the population?

Ms. BOVBJERG. We've reported in earlier work that we've done that many, many people would benefit from waiting, from delaying claiming for Social Security benefits, particularly in the context that we're speaking about today. Single women would benefit tremendously. We don't think they always know that this is something they should do.

If people are in ill health, which does affect a significant percentage of people over 65, they might want to claim early because they think that they won't live long enough to benefit from the increased benefit earned by waiting until age 70. People who are low earner spouses might not benefit as much. But nearly everyone else does and should at least consider it.

A concern that we have had for quite some time is that the government does not speak with one voice on the advantages of working longer and claiming later, and we've spoken about this frequently before this committee. We've made recommendations that the government should think more generally about the signals that we send. For example, we have different claiming and eligibility ages for different programs—Medicare, Social Security, pension withdrawal requirements. But if you really look at Social Security, which has the biggest platform in some ways, Social Security does have an opportunity to get the word out to people, make the information more readily available. We think that if we frame the issue perhaps a little differently so that it's more focused on age 70 and less on the so-called full retirement age, that that could make a difference.

I think it would also be important that Social Security consider what do they want to say, how are they going to say it, and how can it be said consistently across field offices, 800 number operators, and the web site, where people are increasingly claiming electronically. We think these things would go a long way.

If I could, just while I have the floor for a minute, I just would like to talk about the importance of the opportunity of the Social Security statement, which is a way that we once reached every American over the age of 25. And now we are only sending to people over age 60 and people when they turn 25, on or around their birthday. Others can obtain it on line, but many people won't do that. That is an opportunity to educate people.

We have called in the past for a redesign of the statement to make it more accessible to people and to really explain some of these things more clearly; we also believe that it should be more widely available, and we're saddened that it's not. We think it's an opportunity that's being lost.

The CHAIRMAN. Thank you so much.

LaTina Greene, we've heard from GAO and many people are asking the question, and I'm sure you can provide some cogent observations, why doesn't SSA do more to educate people about the consequences of delaying benefits? You state and we recognize that you don't want to be people's financial advisers. But for many people, especially those who depend largely on Social Security, SSA is where they get the information. Don't you feel that you, we, the country, owes it to these people to at least be certain that they are fully familiar with the ramifications of beginning the benefits at 62 or 66 or 70?

Ms. BURSE GREENE. Absolutely we agree, absolutely. I don't think that there is a disagreement there. Our position is that, regardless of the service channel that a claimant chooses to file for retirement benefits, we provide the same information to them. We provide them information as to their monthly benefit amounts at age 70, at the full retirement age, at age 62, at their earliest month of entitlement, or at any other month they choose.

We make them aware of the fact that if they decide to claim early, they will have a reduction of between 25 and 30 percent of the benefit that they would be entitled to at full-retirement age. We explain to them that if, in fact, they delay retirement after the full retirement age, that they will receive an 8 percent increase in their monthly benefit amount each year thereafter. We explain to them exactly how earnings will affect their benefits and how their personal decision will affect their spouses and their surviving spouses and so forth.

So I think that, regardless of the service channel, we provide all of that relevant information. We have publications available online. We have various calculators and tools available online for them to be able to make informed decisions, might I add very personal decisions, about when it's best to retire.

But I think from my opinion we've been here before. In 2008 we were influencing individuals, admittedly, to retire at age 62. We've recognized the error of our ways. We've adopted a more neutral position by providing them with the facts, complete, objective, neutral facts, so that they can make sound, informed decisions. And I think we're going backwards if in fact, instead of influencing them to retire early, now we're going to be influencing them to retire later. I think our position is the right position to take and that is to just provide the facts and rely on the experts, like the financial advisers and professionals, to basically delve into their financial portfolios, to ask them questions about their health and family longevity, to ask them questions about their other streams of income.

Our technicians are not financial advisers, as you mentioned and to be quite honest with you, the time that we spend delving into their financial portfolios could be spent working on other mission-critical work that we have to do.

The CHAIRMAN. All right. Well, we'll come back to that. I think it's a crucial point, at least for our discussion.

Kelly O'Donnell, what kind of knowledge do consumers have about Social Security and when they come to you do they know about the advantages of delaying benefits?

Ms. O'DONNELL. Based on our work with employers and 401(k) participants, I would say generally they're not aware. One of the things we have found with the roll-out of our retirement income service Income+, which is based on the 401(k), it immediately started bringing up more questions about the retirement income puzzle, so things like Social Security, Medicare, DB pensions, how all those things fit together.

Social Security has generally been a surprise in terms of the benefit that can be obtained for both employers and participants, a pleasant surprise, but a surprise.

To Ms. Green's remarks, I do believe that what we find is that—and this has been typical of what we've seen in the 401(k)—is that education can provide a baseline of knowledge. We've seen that informing people and educating people about how to save and invest in their 401(k) has provided success to a point. However, when we really want someone to make an impact and to make the right financial decisions, that's where we find personal advice is really helpful. And I think the same situation is here, where individuals need to talk to someone, to really understand all the different and consider all the different points in their personal situation before making those decisions.

The CHAIRMAN. Given the advantages of waiting to take their benefits, why do you think so few women in fact do wait?

Ms. O'DONNELL. I think some are just ill informed in terms of not understanding. I think some people—based on our research, we find that generally inertia is one of the biggest attitudes and behaviors. So inertia would say just to take it at 62 because that's what everyone else does. There's also uncertainty. There can be uncertainty about the stability of the Social Security System, and so some may feel that a bird in hand is better, even if it's not.

I think that they have not had the benefit of financial professionals really explaining to them the true benefits of deferral.

The CHAIRMAN. So you also feel that to some considerable extent the reason more women don't defer is because they don't fully understand the ramifications?

Ms. O'DONNELL. Definitely.

The CHAIRMAN. Do you feel that way, Ms. Bovbjerg?

Ms. BOVBJERG. I do, and I would just like to point out that 46 percent of unmarried people are relying nearly entirely on Social Security, 23 percent of couples. Those are a lot of people who are not going to have financial advisers, number one; and number two, they're really looking to Social Security for help. SSA's all they have available to them in retirement.

So I really think that it is important that we use the Social Security platform to try to reach people. I don't disagree on getting employers more informed and certainly having employers help people when they consider their retirement options. But I think that it's really fundamental that SSA step in.

The CHAIRMAN. Without being critical or personal here, but what I hear you saying is that this population of women would be better served if they had better information on the ramifications of when to start taking Social Security. And I think I hear you saying—and I'd like to hear you comment on that, LaTina—that, while Social Security should not—SSA should not be responsible for making those judgments, there is a question about whether or not SSA would be serving this population more fully if they were not given more information, a more clear understanding of the ramifications.

That's not suggesting that there's anything being done wrong right now, just how we can make it better. I guess I'd be interested in your opinion.

Ms. BURSE GREENE. We completely understand your concerns. We would be willing to sit down with you and your staff to try to look at your suggestions on how we can frame retirement options in a way so that we're not influencing them and not advising them on which decision to make. So I think we welcome that discussion, but again we have to do it in such a way that we're not influencing them in a particular direction.

Ms. ENTMACHER. Senator Kohl.

The CHAIRMAN. Yes?

Ms. ENTMACHER. If I could just add something to the conversation here. We do some education through webinars with women and I certainly agree that better understanding of the consequences of the decisions people make about claiming Social Security, the consequences of a spouse's decision, is very much needed and would be very helpful.

But there are quite a number of women and men who really don't have a choice, particularly in the last few years with prolonged periods of unemployment for many older workers who have lost their jobs, who can't get back into the workforce. We hear from women who say, you know: I'm 61 years old, I've been looking for work and looking for work. They know their benefits are going to be cut, but they don't know what they're going to live on. They don't have $100,000 in an IRA that they can use to tide them through, and they're really struggling and, quite frankly, taking Social Security may be better than charging a lot on a credit card just to make ends meet.

I know in some of the other bills you've introduced you've recognized some of the employment challenges that older workers face. So there certainly are people out there for whom realistically waiting is not an option, and we have to address the broader picture of economic challenges.

The CHAIRMAN. Yes, very good.

Ms. Schaeffer, in your testimony you've referred to the idea of moving the retirement age possibly back. Yet GAO has previously reported to us about the unintended consequences of such an action, an increase, for example, in disability claims and a cut in benefits for those whose physical health or taxing jobs are forcing them to retire early.

So how do we move back the age while still protecting these people who need the benefits the most at an earlier age?

Ms. SCHAEFFER. Well, I think the first thing that we're all sort of recognizing is that there are some serious challenges to a defined benefit system, and that, while we're talking about all of these benefits they don't come without a cost, and that we have to remember that the current system is currently financially unsustainable.

So there are going to be winners and losers in the way that it's reformed, but we have to do something because currently future workers aren't going to be seeing any of their money. So I think that the biggest point that I could make here is the importance in having a system that allows for flexibility, control, and ownership, so that people can plan and can design a retirement system that fits the needs of their family and their health, considers their health needs, their employment prospects, and allows them the greatest ability to be flexible throughout their time that they're in the workplace or at home.

I think that you're pointing out a very important issue about the age at which we retire, but I think that we need to be very clear that in 1940 a man who reached age 65 was expected to live only 12.7 more years, a woman only 14.7 more years, but by 1990 the 65-year-old man is expected to live 15.3 years and a woman 19.6 years. That's 2.5 more years of payments for the man and 5 more years of payments for the woman. That's wonderful that our life expectancy is increasing, but we again have to recognize the real actuarial cost that this means for all of us in terms of taxpayers.

The CHAIRMAN. Thank you.

Ms. Entmacher, as we know, we have a special minimum benefit today. But we understand that it was not really reaching people it was intended to cover. In many cases it is not. Can you tell us why that is and what are some of the ways we can fix this benefit to ensure that it protects the very poorest of the poor?

Ms. ENTMACHER. Well, there are several reasons why it's not working. Just to illustrate how dramatically it's not working, about 40 percent of women workers receive a Social Security benefit that isn't enough to bring them out of poverty, whereas the special minimum benefit helps just over one-tenth of one percent of all beneficiaries. So it clearly is not reaching people that it was intended to.

There are several reasons for that. One is that, while the regular Social Security benefit formula keeps pace with—is wage indexed, it keeps pace with increases in the standard of living, the special minimum benefit is not. It's indexed to poverty, so it shrinks every year.

The second problem with it is that it requires a very substantial level of earnings to get a single year of credit toward the special minimum. For example, you must earn $12,280 a year to get one year of credit toward the special minimum. To get a year of credit toward regular Social Security is $4530. And if you fall even a dollar short of that $12,280, you don't get any credit.

That may not seem—$12,000 may not seem like a lot to some of the people in this room, but if you're working for minimum wage that's virtually full time, year-round minimum wage work. The nature of the low wage labor market is that low wage workers often can't get steady work. It's a seasonal labor market, jobs are temporary. Low wage workers have more struggles to pay for caregiving, so they may lose time out of the labor force when they can't go to work. They don't get paid time off to care for a child. They're more prone to disabilities.

So that you've got a concentration of people who have interruptions in their work histories, as well as the nature of the labor market, that people often don't have that kind of steady work. So it's hard to qualify for benefits.

The amount that we give people under the special minimum isn't enough to bring them out of poverty even if they have 30 years of these earnings. And we don't give any credit for caregiving.

So those are four ways that I've suggested to improve the special minimum: first of all, to make sure that it gives people at least 125 percent of poverty; to lower the amount needed to qualify for a year of credit; to index benefits to wages instead of prices, the way regular benefits are indexed; and to give eight years of caregiving credit, and that would make it much more effective.

The CHAIRMAN. Good.

Ms. ENTMACHER. Thank you.

The CHAIRMAN. Other comments from the panel?

[No response.]

I am encouraged with the thought that we can work together, Ms. Greene, with you and your agency to be sure that we get as close to 100 percent as possible of information and understanding out there to women who are approaching 62 on some of the benefits of waiting until 66 or 70. I think we all feel that can make a big—really advantage the system, advantage the situations of these women who so clearly would be in a better situation and a better benefit if they waited.

Who else wants to make comment? Yes, Barbara, go ahead.

Ms. BOVBJERG. I just did want to say that I thought that what I just heard about framing the issue is so important. We heard that when we spoke to our experts about different policy options over and over, that how we talk about it is really important. We've long thought that we need to be more consistent across government, and I think that what you're suggesting is a really great start.

The CHAIRMAN. And your point also that this huge gap between age 25 and age 60 when not enough information is getting out, so that when it gets out maybe at age 60 it's a little too late in some cases for them to have made their plans and they didn't understand the ramifications at an earlier time in their lives. We can do a better job with that also.

How did it occur that we stopped sending out that information annually, do you know?

Ms. BURSE GREENE. Yes. In March or April of 2011, furloughs were imminent at the time. We were spending $70 million a year in postage and mailing costs for the Statement. At that time, to be quite honest with you—and it was a very difficult decision to make—we had to figure out how we could continue to have adequate staff available to fulfill our mission-critical work, our mission-critical activities, be it processing claims, program integrity work, and so forth.

The bottom line is that a decision was made that we would suspend mailing the statements so that we could take that $70 million—for fiscal year 2011 it was actually $30 million—and divert that to keep staff on duty in order to perform our mission-critical work. Since that time, as you know, we've developed online Statement that is available 24–7. We resumed mailing the Statement for individuals 60 and over who are not currently receiving benefits.

On Monday we resumed mailing a one-time Statement to individuals turning age 25. As part of the President's fiscal year 2013 budget, there are sufficient funds for us to resume mailing the Statement to everyone who is not currently receiving benefits. But, of course, it depends on what the actual appropriation will be, that will determine the tough decisions we're going to have to make going forward. We will continue to evaluate our options.

The CHAIRMAN. Did I hear you just say that there are plans afoot to resume those mailings?

Ms. BURSE GREENE. There are sufficient funds in the President's fiscal year 2013 budget that is correct. But it remains to be seen whether or not we actually receive that budget.

The CHAIRMAN. Did you refer also to the cost involved?

Ms. BURSE GREENE. Correct. It costs $70 million a year.

The CHAIRMAN. 7–0.

Ms. BURSE GREENE. 70 that is correct, 7–0, for postage and mailing costs.

The CHAIRMAN. Were we to resume an annual mailing to everyone?

Ms. BURSE GREENE. That is correct.

The CHAIRMAN. $70 million per year?

Ms. BURSE GREENE. That is correct.

The CHAIRMAN. All right, thank you.

Senator Blumenthal, we've been waiting for you and your expertise.

Senator BLUMENTHAL. Thank you.

Let me thank all of you for being here today. I apologize that I was delayed at another event, another meeting, and I just really want to thank you all for contributing so importantly to the work that we're doing here, and thank our chairman, Chairman Kohl, for having this hearing on an issue that is so critically important, enhancing retirement security.

Let me begin, Ms. Greene, if I may, by asking you what we can do and what your plans are to enhance the on-line tools? I know you've talked a little bit about it. Since the tools have been available, have you seen women retiring later and taking more advantage of on-line tools?

Ms. BURSE GREENE. If I may just kind of bifurcate the two questions, I believe.

Senator BLUMENTHAL. Sure.

Ms. BURSE GREENE. I think your first question deals with whether or not we've seen any trends in terms of claiming behavior of women. There has been some recent research by the Urban Institute—that study was actually funded by Social Security—that concluded that there has been a downward trend when you look at cohort behavior and claiming behavior. So, there has been a decrease in claiming at age 62 over the last 10 years or so.

There was a spike, I want to say, around 2008, 2009, but I think thus far that downward trend will likely continue over the next several years. My recollection, and I can confirm this for the record, is I don't recall there being any distinction between claiming by men and women. But again, I can go back and verify that for the record.

Senator BLUMENTHAL. And by downward you mean lower retirement age?

Ms. BURSE GREENE. People are delaying their claiming decisions until later ages. So they're not all claiming at age 62, but maybe at 63 or 64. Again, we can go back and look at the data itself and provide more specifics for the record. There is a downward trend.

Senator BLUMENTHAL. I'd be interested in that. And you rightly bifurcated the two questions. You have seen essentially higher age retirement, a trend toward higher age retirement, is that fair to say? Is that what you ——

Ms. BURSE GREENE. There has been a downward trend in claiming at age 62. So I believe at one point in time, when you look at cohort data, 53 percent of the beneficiary population was retiring at age 62. I think now it's maybe 50 percent of the beneficiary population, when you look at cohort data specifically, are now retiring at age 62. So there has been a downward trend, and again I would prefer to provide more information for the record.

Senator BLUMENTHAL. I'd be very interested in those numbers. Then to take the second part of the question, use of on-line tools, any trends there?

Ms. BURSE GREENE. Well, specifically for the online Statement, in a two-month period, we've had about 1.1 million individuals successfully register for our online Statement. Of those who successfully registered, 35 percent are within the 60 to 69 age category, another 33 percent are within the 50–59 age category.

So we're pleased with the results that we've seen so far and the interest in our online Statement. We will continue to use traditional and non-traditional means of communicating with individuals about online Statement availability.

Senator BLUMENTHAL. Let me ask you—and I would open this question to any of the others who are testifying today—increasing the eligibility age; do you have an opinion as to whether that step would increase the number of women living in poverty? For you or anyone else who might want to answer.

Ms. ENTMACHER. Well, I will take a stab at that, Senator. I'm Joan Entmacher. I'm testifying on behalf of the National Women's Law Center. We are concerned that it would, because raising the retirement age is really a benefit cut. It's nearly 7 percent a year for every additional year. As I said earlier to Senator Kohl, there are people who don't have the option of waiting. They may not have sufficient financial resources to cover them until they claim Social Security. They may have worked in a low-paying job most of their life, have very little saved and be unable to find a job.

Obviously, it's particularly hard today. Duration spells of unemployment are particularly hard for the elderly. Even before the recession, it was very hard for many older workers to get back into the labor force. They just weren't that attractive to some employers.

So what this does is simply reduce the Social Security benefit for people whose benefits are already particularly likely to be low. The people who claim early are disproportionately lower income workers. So it is a problem.

Doing something that doesn't involve raising the retirement age, but that does talk about different ages in a different way, that encourages people who can wait to do so, instead of saying 66 is the full retirement age, say 70 is the highest benefit age, and encourage people to think about these years differently, that could be positive. I don't know what the best words are and we'd have to check messages, but that's very different from actually changing the retirement age and lowering benefits for people who claim before that older age.

Senator BLUMENTHAL. Are there reliable studies on whether it's more difficult for men or women to get back into the workforce at certain ages?

Ms. ENTMACHER. We can get back to you with some more studies. The National Women's Law Center has been looking at duration of spells of unemployment for older women and men. The numbers have jumped around a little bit. For a period of months it'll be longer for women and then you'll look a few months later and it will be even longer spells for older men. All I can say is it's very long for both older men and older women, and their unemployment rates are lower, but their duration of their periods of unemployment are higher, and it's true for both men and women. But I don't want to have a competition because it's really tough for both.

Senator BLUMENTHAL. If you could provide any studies that you think would be helpful or enlightening.

Ms. ENTMACHER. I would be happy to do that, Senator. Thank you.

Senator BLUMENTHAL. Great.

Let me ask Ms. O'Donnell, can you talk a little about what we can do, what government can do, to make sure that there is better information and more information about what people, what women need to do in saving for retirement?

Ms. O'DONNELL. From our perspective and where our expertise lies, we're really about working with employers as part of their 401(k) plan and benefit plans. I think having the government urge more employers to help individuals and their employees with retirement income solutions, providing help with retirement—with Social Security strategies, would be very helpful.

The 401(k) is unique in that next to Social Security it's the largest source of retirement income for many workers, and it also has the benefit of providing an environment with lower fees, fiduciary oversight from the plan sponsor. So there is more of a protected environment from the employer. So anything the government can do to encourage employers to offer more retirement income help through their 401(k) plans and to include Social Security as part of what they should be providing help on we believe will be very impactful.

I've been doing work with very large employers and their employees and we believe that one of the things employers are most excited about is looking at Social Security optimization and specifically deferring Social Security, because it's something that is not well known and they realize that it's probably the biggest impact later in life that one can have on their retirement income.

Senator BLUMENTHAL. Have you noticed any scams or other kinds of improper schemes preying on this area of retirement plans, and have you noticed any trends, either increasing numbers or anything that might be helpful to us?

Ms. O'DONNELL. Yes. I don't have specific studies. There are not a lot of studies on scams, I guess. But what we do hear from our employers—and they're very large employers—because of the demographics of the number of people retiring right now, there are different types of unscrupulous investment advisers who basically wait for people to retire, to have the lump sum. They circle the parking lots, they put flyers on the windshields of the cars, and they're waiting for people. Then typically what happens then is that they are selling them higher-priced investment products that may or may not be in their best interest.

So that is one of the things that we feel is so beneficial about the 401(k) system, is that it provides that protection for the individual. And typically, because of the large scale and the number of assets that are in a 401(k) plan, the employer is able to get lower priced investment services and products available.

Senator BLUMENTHAL. Do you think that there's sufficient enforcement against these kinds of scams?

Ms. O'DONNELL. I'm unsure about—that's something I probably shouldn't comment on. I don't really understand that. I do know that it is an employer concern and that they—because we are an independent fiduciary to the employer, it's something that—having our services is something that they want because they do not want others—their employees looking to outside of the plan for help that may not be in their best interests.

Senator BLUMENTHAL. They want you so that someone unscrupulous isn't the one taking advantage of their employees.

Ms. O'DONNELL. Right.

Senator BLUMENTHAL. But do you know whether they report these kinds of problems when they see them?

Ms. O'DONNELL. I'm unsure. I know that they talk about them anecdotally, but I'm not sure whether they report them to the government or any agencies.

Senator BLUMENTHAL. Let me ask you and any of the others who are here whether you are concerned about elder abuse, of women in particular, elder financial abuse. Elder abuse is normally associated with physical abuse, but one of my interests is in abuse financially, by caretakers, by financial advisers, the spectrum of people who are in positions of trust vis-a-vis the elderly. And it affects women as well as men, obviously. So I'd be interested in any perspective you can offer.

Ms. BOVBJERG. If I may, Senator. GAO has some work under way for this committee on elder abuse and financial exploitation. I was just checking to see when we're releasing it. It looks like it won't be before Thanksgiving.

Senator BLUMENTHAL. Before Thanksgiving?

Ms. BOVBJERG. Yes. Yes. I can't tell you anything about it now. It's coming in November, but it is work we have under way.

Senator BLUMENTHAL. Okay. Well, thank you. That will be very helpful and very important. I don't know whether you ever offer previews of coming attractions.

Ms. BOVBJERG. Usually not in a hearing environment, but we would be happy to come and speak with you.

Senator BLUMENTHAL. Well, I was going to suggest if you could talk to us I would appreciate it.

Ms. BOVBJERG. If the committee is interested, we could arrange to have a briefing.

Senator BLUMENTHAL. Thank you.

Any other perspectives or thoughts about that issue, elder financial abuse?

[No response.]

Well, I want to really thank all of you for being here today.

Thank you very much, Mr. Chairman, it's been very important and useful, and I will be very interested in the additional information that you may be able to get us. Thank you.

The CHAIRMAN. Thank you very much, Senator Blumenthal.

We thank you all for being here today. You have cast light on an important subject and so your taking the time to come has been more than worthwhile.

This hearing is adjourned.

[Whereupon, at 3:14 p.m., the hearing was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

Testimony
Before the Special Committee on Aging, U.S. Senate

For Release on Delivery
Expected at 2:00 p.m. EST
Wednesday, July 25, 2012

RETIREMENT SECURITY

Older Women Remain at Risk

Statement of Barbara D. Bovbjerg, Managing Director
Education, Workforce, and Income Security

GAO
Accountability * Integrity * Reliability

GAO-12-825T

Chairman Kohl, Ranking Member Corker, and Members of the Committee:

I am pleased to be here to discuss the challenges women face in attaining a secure retirement. Historically, elderly women have been at greater risk than men of living in poverty for several reasons. As our previous work has shown, women continue to have lower average earnings than men, despite their increasing participation in the labor force over the last half of the 20th century.[1] They are also more likely than men to take time out of the workforce to care for family members and tend to live longer. Moreover, recent economic trends, including the economic downturn, reductions in public sector pensions, and the ongoing shift from a defined benefit pension system to a defined contribution system could exacerbate the risks women face in attaining a secure retirement.

Over the past quarter-century, the percentage of private sector workers participating in employer-sponsored pension plans has held steady at about 50 percent. The majority of workers that do not participate in an employer plan lack access to one. In addition, over the last 3 decades, the U.S. retirement system has undergone a major transition from one based primarily on defined benefit plans to one based on defined contribution plans. This transition, in turn, generally shifted the burden of saving and decision-making to the individual worker and also increased workers' exposure to economic volatility. This transition also has implications for the financial security of spouses. For instance, under defined benefit plans, the qualified joint and survivor annuity required by law may only be waived through a written spousal consent. However, under most defined contribution plans, an employee may withdraw funds from his or her account without spousal consent.

Today's testimony examines women's retirement income security in light of these circumstances. It is based on a GAO report being released today.[2] In the report, we examined (1) how women's access to and participation in employer-sponsored retirement plans compare to men's and how they

[1]GAO, *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement,* GAO-08-105 (Washington, D.C.: Oct. 11, 2007) and GAO, *Gender Pay Differences: Progress Made, but Women Remain Overrepresented among Low-Wage Workers,* GAO-12-10 (Washington, D.C.: Oct 12, 2011).

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

have changed over time; (2) how women's retirement income compares to men's and how the composition of their income—the proportion of income coming from different sources—changed with economic conditions and trends in pension design; (3) how later-in-life events affect women's retirement income security; and (4) what policy options are available to help increase women's retirement income security.

To address these questions, we analyzed two nationally representative datasets, conducted an extensive literature review, and consulted with numerous experts. For our first two objectives, we analyzed data from the Survey of Income and Program Participation (SIPP), a nationally representative dataset.[3] For our third objective, we developed a statistical model to estimate the effects of events occurring later in life, such as a decline in health and widowhood, on income and assets using data from the Health and Retirement Study (HRS), a nationally representative dataset that tracks Americans age 51 years or older over time.[4] We assessed the reliability of selected SIPP and HRS data and found that, for the purposes of our analysis, the data that we analyzed were sufficiently reliable. Finally, to identify policy options that could increase retirement income security among women, we conducted an extensive literature review and interviewed a range of experts in the area of retirement income security.[5]

We conducted this performance audit from March 2011 through July 2012 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.

[3]Specifically we used data from the 1996, 2001, 2004, and 2008 SIPP panel surveys, which are administered over a period of several years.

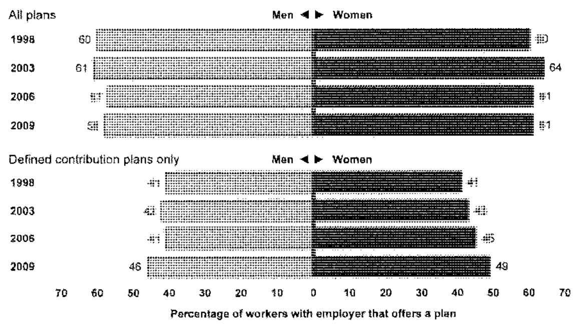
[4]We used all years of HRS data, including early release data for 2010. For more details on our methods, see GAO-12-699.

[5]To ensure that we obtained a balanced perspective, we interviewed experts with a range of perspectives and from different types of organizations including government, academia, advocacy groups, and the private sector. See the full report for more details.

Mr. Chairman, the following summarizes our findings on each of the four issues discussed in our report:

Over the last decade, working women's access to and participation in employer-sponsored retirement plans have improved relative to men.[6] In fact, from 1998 to 2009, women surpassed men in their likelihood of working for an employer that offered a pension plan—largely because the proportion of men covered by a plan declined (see fig. 1). Furthermore, as employers have continued to terminate their defined benefit plans and switch to defined contribution plans, the proportion of women who worked for employers that offered a defined contribution plan increased. Women's higher rates of pension coverage may be due to the fact that they are more likely to work in the public and nonprofit sectors and industries that offer coverage, such as health and education.

Figure 1: Proportion of Working Women and Men with Employers That Offered Any Type of Pension Plan and Defined Contribution Plans Specifically



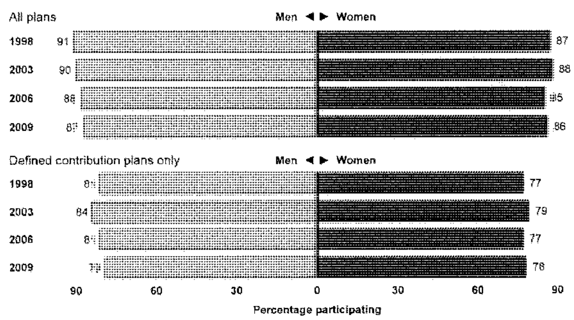
Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/- 1 percent of the estimate itself.

[6] The statistics we present on employer-plan coverage, eligibility, and participation; income levels and composition; and poverty rates are point estimates computed from the SIPP data.

Despite women's greater likelihood of having an employer that offered a pension plan, they were slightly less likely to be eligible for and to participate in those plans. Although women's eligibility rates generally increased over time, by 2009 there remained a 4 percentage point gap between men and women in terms of eligibility. Of those who were eligible to participate in their employer's pension plan, women had lower rates of participation than men. This gap, however, diminished over time as men's participation rates declined (see fig. 2). Women who were eligible to participate in a defined contribution plan were less likely to participate for a variety of reasons, including that they made less money, on average, were more likely to work part-time, and were more likely to be single parents. Finally, women who participated in a defined contribution plan contributed to their plans at lower levels than men.

Figure 2: The Proportion of Eligible Women and Men That Participated in Any Type of Employer-Sponsored Pension Plan or in Defined Contribution Plans (among the Population That Was Eligible for a Plan)

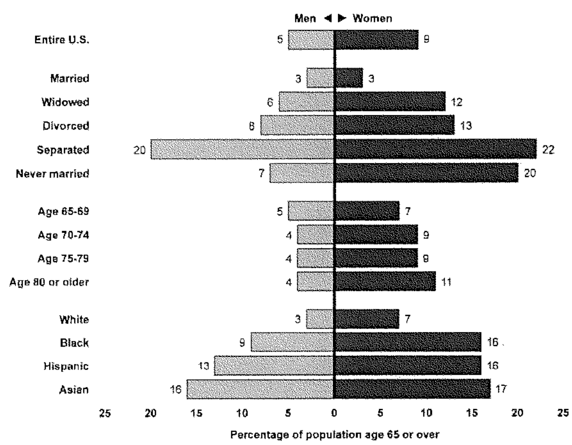


Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percent of the estimate itself.

Women age 65 and over consistently had less retirement income on average and had higher rates of poverty when compared to men despite the fact that the composition of their income did not vary greatly over time. Specifically, the share of household income women received from earnings increased from 14 percent in 1998 to 16 percent in 2010, but was consistently lower than the share of household income men received from earnings. Moreover, women's median income was approximately 25 percent lower than men's over the last decade, and the poverty rate for women in this age group was nearly two times higher than men's in 2010. Income levels and poverty rates did, however, vary by demographic group. Groups with the lowest median incomes and highest poverty rates included women who were not married, over the age of 80, and non-White (see fig. 3). The composition of women's income varied only slightly over time, in part, because their main sources of income—Social Security and defined benefit plans—were shielded from fluctuations in the market.

Figure 3: Poverty Rates by Demographic Categories in 2010 for Women and Men Age 65 and Over



Source: GAO analysis of SIPP data.

Note: Estimates for men and women include spousal income. Percentage estimates of poverty rates have 95 percent confidence intervals that are within +/-1 percent for the category for the entire U.S.; +/-1 percent for married, +/-2 percent for widowed, +/-3 percent for divorced, +/-12 percent for separated, and +/-6 percent for never married individuals; +/-2 percent for all age-categories; +/-1 percent for Whites, +/-4 percent for Blacks, +/-5 percent for Hispanics, and +/-8 percent for Asians.

Divorce, the death of a spouse, and unemployment all had detrimental effects on the total household assets and income for men and women nearing or in retirement (see table 1), and divorce and widowhood had more pronounced effects for women than for men.[7] For example, after a divorce or separation, women's household income fell by 41 percent, on average, almost twice the size of the decline that men experienced. As a result of becoming widowed, women's household income fell by 37 percent while men's only fell by 22 percent. These effects may help explain why elderly women have lower average incomes than men and are more likely to live in poverty. We also found, not surprisingly, that a decline in health after age 50 had a negative effect on household assets and income, for both men and women.

Table 1: Estimated Effects of Life Events on Household Assets and Income by Gender

Percent change

	Total household assets		Total household income	
	Women	Men	Women	Men
Became divorced or separated	-41[a]	-39[a]	-41[a,b]	-23[a,b]
Became widowed	-32[a,b]	-27[a,b]	-37[a,b]	-22[a,b]
Became unemployed	-7[a]	-7[a]	-9[a]	-7[a]
Health declined	-8[a]	-10[a]	-4[a]	-3[a]

Source: GAO analysis of HRS data.

Notes: We used statistical models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. Individuals in our sample were over age 50.

[a]Estimate is significantly different from zero.

[b]Difference between women and men is statistically significant.

[7]We estimated these effects using fixed-effects panel regressions with HRS data. Because this analysis pertains to individuals over the age of 50, these effects may not be generalizable to younger cohorts as women's labor force participation and, correspondingly, their assets and income, have changed over the last several decades. Our report also examined the effects of helping parents financially or with personal activities, but did not find statistically significant negative relationships.

Experts we interviewed identified 22 existing policy options that could address some of the challenges women face in attaining a secure retirement and help decrease the risk of elderly women living in poverty.[8] These policies can be categorized into six broad policy goals (see table 2). For example, one set of options would expand the use of existing tax incentives, such as the automatic IRA, to encourage women to save more for retirement during their working years. Another set of options would help ensure income adequacy in retirement by, for example, providing an additional Social Security benefit to beneficiaries over the age of 80 or 85. All of these options could benefit men as well. At the same time, however, all of the options have cost implications that would need to be considered before they are implemented. For example, as with any federal spending program, any option that results in reduced or deferred federal tax revenue may require an offset, such as raising revenue elsewhere or cutting spending. While the federal government could bear some of these costs, workers and plan sponsors could be responsible for others. Lastly, some options may require legislative changes.

Table 2: Policy Goals for Enhancing Women's Retirement Income Security

Expand the use of existing tax Incentives to save for retirement
Expand eligibility and opportunities to accumulate Social Security credits
Expand access to retirement savings and strengthen spousal protections
Expand opportunities for saving later in life and delay Social Security benefit receipt
Ensure lifetime income
Ensure income adequacy

Source: GAO analysis of literature and expert interviews.

In conclusion, retirement security continues to be a national dilemma for both women and men. Recent economic volatility, coupled with the continued shift toward defined contribution plans, exposes all workers to more financial risk than in previous generations. Our work highlights, however, that women face a unique set of circumstances that warrant special attention. Women may have a more difficult time saving for retirement and avoiding poverty late in life, partly due to the fact that they have a greater likelihood of being single, living longer, taking time out of the workforce to care for family members, and having lower average

[8]For a detailed list of policy options, see the full report, GAO-12-699.

earnings when they are in the workforce. Further, our findings show that for recent generations of older women, late-in-life events, such as widowhood and divorce, can have devastating effects on women's income and asset levels. According to the experts we consulted, many options exist for addressing the challenges women face, ranging from changes to Social Security to altering the pension system. While each option would require trade-offs and difficult choices, they could benefit both women and men and ultimately provide opportunities to improve the retirement security of many Americans.

Chairman Kohl, Ranking Member Corker, and Members of the Committee, this concludes my prepared statement. I would be happy to answer any questions you or other members of the committee may have at this time.

Appendix I: GAO Contact and Staff Acknowledgments

GAO Contact

Barbara D. Bovbjerg (202) 512-5491 or bovbjergb@gao.gov

Staff Acknowledgments

In addition to above, Charles Jeszeck, Michael Collins, Erin M. Godtland, Jennifer Gregory, Alicia Atkinson, Kathy D. Leslie, James Rebbe, and Shana Wallace made valuable contributions to this testimony.

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HEARING BEFORE

THE SPECIAL COMMITTEE AGING
UNITED STATES SENATE

JULY 25, 2012

STATEMENT
OF
LATINA BURSE GREENE
ASSISTANT DEPUTY COMMISSIONER FOR
RETIREMENT AND DISABILITY POLICY
SOCIAL SECURITY ADMINISTRATION

Chairman Kohl, Ranking Member Corker, and Members of the Committee, thank you for the opportunity to speak to you about the importance of the Social Security retirement decision, and how it affects women. I am LaTina Burse Greene, the Assistant Deputy Commissioner for Retirement and Disability Policy at the Social Security Administration.

For over 75 years, Social Security has provided a solid foundation of financial protection for the American public. Our programs have allowed Americans to retire with dignity, and without fear of poverty. During fiscal year (FY) 2011, we paid nearly 60 million people over $770 billion in benefits. For most people, retirement is one of the most important decisions they will make, and our role is to help ensure that the American people have the accurate information they need to make sound, informed decisions about Social Security retirement benefits.

Clearly, Social Security benefits are a very important part of an individual's retirement security. However, Social Security was never intended to provide for all of a worker's retirement income needs. Income from an additional retirement programs and personal savings should be part of an individual's sound financial plan. Nonetheless, individual financial situations vary greatly, and each retiree should weigh all factors carefully, considering individual circumstances -- such as anticipated financial needs and obligations, health and family longevity, and any plans to earn employment income in retirement-- before making the important decision about when to begin receiving Social Security benefits.

Social Security Protection For Women

I would like to begin by outlining some of the program features of Social Security that are particularly important to women. Although Social Security program is gender neutral—individuals with identical earnings receive the same benefits—some elements of the program are particularly helpful for women for several reasons. First, women tend to live longer; second, women generally have lower lifetime earnings than men; and third, women often retire with smaller pensions and other assets than men.

Currently, women represent 57 percent of all Social Security beneficiaries aged 62 and older and approximately 68 percent of all such beneficiaries aged 85 and older. In addition, because of their greater longevity, women have a greater chance of exhausting other sources of income. Income from other retirement programs and savings may run out, but Social Security benefits continue for life.

One important feature is the benefit formula. Since the Social Security program's inception in 1935, the benefit formula was structured to replace a larger portion of pre-retirement earnings for lower earners than for higher earners.

Another important feature is the automatic cost-of-living adjustment provision (COLAs), enacted in 1972, to maintain the purchasing power of benefits. This COLA feature is particularly important for women because of their greater life expectancy.

A third feature is that family members of retired, disabled, and deceased workers are eligible for benefits as well. In addition to potential eligibility for benefits as a retired or disabled worker, women may be eligible for benefits as a spouse, divorced spouse, or widow. These benefits are especially important to women because they are more likely to receive spouse's or widow's benefits due to their lower lifetime earnings, and many times women are eligible for spouse's or widow's benefits in addition to benefits they receive based on their own earnings. In other words, women may be entitled to benefits based not only on their own work and earnings, but on the work and earnings of a spouse. In addition, as women's participation in the workforce increases, disability coverage becomes more prevalent and more important to financial security.

Social Security Retirement Decisions and Financial Security

Choosing when to retire will determine the amount of Social Security benefits a person will receive for the rest of his or her life and also can affect his or her spouse's benefits. For this reason, we have developed a strong policy framework to provide complete and accurate information -- not advice -- to assist claimants with making a personal decision on when to retire, without influencing their decision.

When people ask us--"What is the best age to start receiving retirement benefits?" --we tell them that there is no "best age" for everyone and that ultimately, it is their choice. It is a personal decision that should be based on a number of factors, such as their current cash needs, health and family longevity, whether they plan to earn employment income in retirement, whether they have other retirement income sources, their anticipated future financial needs and obligations, whether others may be dependent on them or their Social Security benefit, and, of course, the amount of their future Social Security benefit.

Anyone interested in filing for retirement benefits can reach us through a variety of service channels. We are available online, on the telephone, and in person to answer questions and provide information. People can obtain retirement information by accessing our "Retirement Planner: When to Apply" webpage from our homepage at www.socialsecurity.gov or download our factsheet "When to Start Receiving Retirement Benefits". As more people choose to conduct their business online, we believe that our online services will become the preferred method of contacting us. Nevertheless, we recognize that some people will need or prefer to talk to one of our experts to answer their questions.

Regardless of how a person chooses to file for retirement, our policy is to provide information about the monthly benefit amounts payable at various ages, such as the earliest possible month of entitlement - age 62, at full-retirement age, at age 70, or at any other age the person requests. We also discuss how earnings can affect benefits, and we explain other benefits that may be available, such as benefits that could be payable to a spouse or to a child.

Impact Of Early Retirement

Some research has suggested that the way we presented information on claiming benefits in the past may have induced some people to take their Social Security benefits early. Although the age a person begins receiving retirement benefits will not make a difference in total lifetime benefits on average, age does have an impact on the amount of the monthly payment. Taking benefits early, before reaching full retirement age, means that the monthly benefit amount will be smaller, in order to account for the longer period over which the benefit will be paid.

Taking Social Security benefits early results in a permanent reduction in the amount of the monthly retirement benefit. The maximum reduction at age 62 in comparison to full retirement age was 25 percent for people who reached age 62 in 2008 or earlier. As the full retirement age continues to increase to age 67, the reduction will increase to 30 percent for people born after 1959.

Conversely, taking benefits later can result in a permanent increase in the amount of the monthly benefit. Workers who delay retirement to beyond their normal retirement age can earn delayed retirement credits that increase their monthly benefit. For those born in 1943 and later, the increase is 8 percent per year of delayed retirement through age 69. Clearly, the age of a person claiming benefits makes a significant difference in the monthly benefit amount. For example, assume that an individual's full retirement age is 66 with a monthly benefit of $1,000. If she chooses to start receiving benefits at age 62, her monthly benefit would be reduced to $750 to account for the longer period of time she will receive benefits. In general, the decision to receive benefits before the full retirement age permanently reduces her monthly benefit.

If she chooses to wait to receive benefits until age 70, she would permanently increase her monthly benefit amount to $1,320. This increase is based on delayed retirement credits she gets for her decision to postpone receiving benefits past her full retirement age. The benefit amount at age 70 in this example is 32 percent more than she would receive per month if she chose to start getting benefits at full retirement age.

The decision on when to apply for Social Security affects not only the amount of the worker's own benefit, but will affect the amount of any potential benefit paid to the worker's survivors. This factor can be very important to married women, who may claim a widow's benefit on the record of their deceased spouse. In effect, the same reduction in the worker's benefit will apply to the widow(er)'s benefit.

Our Retirement Planning Tools

We have developed many new, easy-to-use tools to help people navigate the complexities of their retirement decisions. The Retirement Planner on our website provides a great deal of information and a number of tools that the public can use to better understand our programs and the importance of the retirement decision.

Our online Retirement Estimator provides immediate and personalized retirement benefit estimates. The Estimator will allow a person to create "what if" scenarios. For instance, users can change the date they plan to stop working and expected future earnings to create and compare different retirement options. It enables users to see the effects of these decisions on their retirement benefits at age 62, current age, full retirement age, age 70, or any other age requested.

The Retirement Estimator greatly improved the information available to people as they plan the right time to retire. It is simple, easy-to-use, and provides highly accurate benefit estimates. Since its launch in 2008, this tool has become popular with the American public. It is the second highest rated electronic service in the Federal government, ranking only one point behind our online benefit application (iClaim) in the University of Michigan's American Customer Satisfaction Index (ASCI) survey. It scored higher than popular private sites like Google and Amazon, and is now available in Spanish.

As a complement to the Estimator, we developed an Online Life-Expectancy Calculator - another simple, but important, tool to assist the public with retirement planning. Many people substantially underestimate life expectancy, and this online service adds a measure of accuracy to retirement planning by providing average life expectancies at different ages based on the person's gender and date of birth, drawing on assumptions provided in the annual Trustees' report. According to our most recent data, a man reaching age 65 today can expect to live, on average, until age 83. A woman turning age 65 today can expect to live, on average, until age 85. Keep in mind, however, that one out of every four 65 year olds today will live past age 90 and one out of 10 will live past age 95.

Another tool that we have developed is a Retirement Age calculator that allows a beneficiary to compute the effect of receiving early or late retirement benefits. The user enters his or her date of birth and the effective month for beginning benefits. From this information, the tool can provide the effect of early or delayed retirement as a percentage of the basic benefit amount.

Our webpage, www.socialsecurity.gov/women, has been a staple on our website since 2001. It offers important information for working women, brides and new mothers, divorced women and caregivers, as well as women who are receiving benefits.

We also have print resources specifically designed for women. These include:

- a fact sheet "Social Security Is Important to Women," and
- *Publications including* "What Every Woman Should Know," and "Understanding the Benefits"

Individuals can download these publications from our website or request them through our 800 number.

One of our most useful retirement planning tools is the *Social Security Statement,* which provides workers with estimates of future monthly retirement, disability, and survivors benefits. This is especially important to women, who are likely to spend longer in retirement than men, and are more likely to be entitled to benefits as a widow. In February of this year, we resumed mailing the *Statement* to workers age 60 and older. On May 1, we made it available on our website at www.socialsecurity.gov/mystatement. This past Monday, we resumed first time mailings to workers at age 25.

Our Research on Challenges Facing Women

We conduct extensive research about the role of Social Security in women's retirement security and the challenges they face. I would like to mention some important themes from our research include:

Women are more reliant on Social Security for retirement income than men.

- In 2010, Social Security comprised an average of 54 percent of women's (65 or older) family income and at least 90 percent of the income of 26 percent of these women.[i]

- Among women 80 or older in 2010, Social Security comprised an average of 63 percent of women's family income and at least 90 percent of the income of 35 percent of these women

- Social Security spouse and survivor benefits are a particularly important source of retirement income. At the end of 2010, 12.9 million women Social Security beneficiaries aged 62 or older (54 percent) received at least part of their benefit as wives or widows of entitled workers.[ii]

However, demographic changes in the population are reshaping the types and amounts of Social Security benefits women may receive, which may have an important effect on their retirement income.

- A growing tendency toward never marrying, along with shorter marriages before divorce, may foreshadow a decline in women's eligibility for spouse or widow benefits in future years.[iii] This trend may have particularly marked effects for certain minorities or economic groups.

- At the same time, rising labor force participation among women means that they are more likely to qualify for Social Security benefits based on their own earnings record.[iv] However, due to continued earnings differences between men and women, many of these women will continue to rely on widow's benefits if they outlive their husbands.

Despite increased labor force participation and earnings, women still face unique challenges in accumulating retirement resources.

- Women tend to have lower contribution rates to retirement savings accounts, such as in 401(k) plans and IRAs. Women's concentration in lower-wage or part-time jobs contributes to this.[v]

- Analysis of national survey data has revealed that younger single women are less likely than single men or their married counterparts to view retirement as an important reason to save, and are less likely to have an IRA account or participate in a defined-contribution pension plan. This may lead to lower accumulation of retirement resources.[vi]

In addition, we recently conducted a study using our microsimulation model that highlights the impact of changes in married women's earnings on the types of Social Security benefits that women will receive over the next several decades. The projections suggest that because women's earnings are increasing, a greater share of beneficiary wives from more recent birth cohorts will be eligible for Social Security benefits based on their own earnings record. However, the majority of these women are projected to continue to receive widow benefits due to having lower lifetime earnings than their husband. Thus, surviving spouse benefits are likely to continue to play a critical role in the retirement security of future beneficiary women[vii]

Our Work To Support Financial Literacy

Our financial literacy, retirement security and education initiatives to encourage saving are useful to women who are planning for retirement now. We participate in pre-retirement seminars and other forums to provide information targeted towards women. This coming Saturday we will be participating in a public program in Chicago hosted by the Department of Labor that will include panel discussions on how women can better manage and protect retirement savings and what to look for in the retirement marketplace.

Conclusion

Chairman Kohl and Members of the Committee, thank you again for inviting me to testify. I also want to thank you for your ongoing support of our programs. We recognize that we play an important role in providing the information women and men need to make their retirement planning decisions. We strive to make available, through a variety of channels, current, thorough, and easy to understand information that people can use as they plan their financial future.

ENDNOTES

[i] U.S. Social Security Administration. 2012. "Income of the Population 55 or Older, 2010." http://www.ssa.gov/policy/docs/statcomps/income_pop55/index.html

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Financial Engines

Senate Special Committee on Aging

Challenges Women Face in Achieving Retirement Security
Hearing Testimony

July 25, 2012

financial engines
retirement help for life®

Introduction

I would like to thank the Senate Special Committee on Aging for this opportunity to provide testimony. My name is Kelly O'Donnell, and I am a vice president at Financial Engines.

Co-founded in 1996 by Nobel Prize-winning economist Bill Sharpe, Financial Engines works with America's leading employers and retirement plan providers to make retirement help available to approximately 8 million 401(k) participants.[1] Financial Engines is the largest, independent Registered Investment Advisor (RIA) in America.[2] We are not a fund manager nor do we offer any investment products. We are an independent provider of online advice and discretionary asset management services. Our newest offering, Income+, helps turn a retiree's 401(k) into flexible but steady payouts that can last for life.[3] The median account balance we manage is $41,000.[4]

Women and retirement security is a very personal topic for me. My father unexpectedly passed away last November and helping my mother plan for steady income for the rest of her life is complex and challenging even for a financial professional like myself.

In my testimony today, I will focus on three key points:

First, helping individuals, especially women, maximize their income in retirement, is imperative.

For most individuals, it is hard enough to save and invest in the years before retirement. It is even more difficult to know how to invest and drawdown the assets so one doesn't run out of money in retirement.

Employers are slowly beginning to offer retirement income solutions within 401(k) plans to help participants with this challenge. The income solutions available through employers today include a range of products and services including annuities as well as managed account services such as Financial Engines' Income+. Exhibit 1 provides an overview of the solutions available today as well as the utilization.

While Financial Engines developed Income+ to help all individuals, we find the biggest need is among women. Not only are life expectancies longer for women, but, due to lower salaries or absences from the workplace, women typically have accumulated much less when they reach

[1] As of 3/31/2012.

[2] InvestmentNews, November 2011.

[3] Lifetime income guarantee requires purchase of out-of-plan annuity.

[4] As of 3/31/2012.

retirement age. Among our clients, the median 401(k) account balance for men age 60 and older is $82,000 and only $46,000 for women age 60 and older.[5]

Clearly more needs to be done to help women. For those with low account balances, solutions that merely annuitize retirement accounts will not be sufficient.

My second point is that for women the financial impact from optimal Social Security decisions can exceed 401(k) savings.

Social Security, when claiming is maximized, can significantly increase the amount of income women, particularly married women, are likely to have in retirement.[6]

Women uniquely benefit from good Social Security decisions. For unmarried individuals, the benefit from Social Security deferral depends on life expectancy. Since life expectancy for women is substantially greater than for men, women have the opportunity to get substantial benefits from deferral.

For married women, optimal household strategies for claiming Social Security generally result in a much higher benefit for a surviving spouse, in some cases 76% higher.[7] Since a surviving spouse is much more likely to be a woman, maximizing this income plays a major role in creating income security for women.

Based on our analyses, optimal Social Security decisions, especially for married women with low balances, can create more retirement income wealth than the woman has accumulated in her 401(k).[8]

My last point is getting the most out of Social Security is often the best way to make a big impact with a small 401(k). However, for women to realize these benefits, they need help. Employer involvement is critical.

The challenges in getting individuals to defer Social Security are formidable. There are both awareness and behavioral challenges. Americans view starting Social Security not as a strategy, but simply something you do upon retirement. And, it's complicated. Determining an optimal strategy depends on marital status, the relative size of each person's earned benefit, interest rates, and life expectancy.

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[5] As of July 2012, Financial Engines Data Warehouse.

[6] Shoven and Slavaov, The Decision to Delay Social Security Benefits: Theory and Evidence. NBER Working Paper 17866. 2012.

[7] A claim at 62 results in a benefit amount equal to 75% of the full retirement benefit (FRB). Delaying to age 70 results in a benefit of 132% of the FRB, or a 76% gain.

[8] Financial Engines Retiree Research Center, 2012.

For many, we believe the best use of retirement accounts is as a bridge to fund retirement in the early years, allowing the deferral of Social Security benefits for as long as possible. I have been involved in testing with employers and participants the concept of applying Income+ so that 401(k) payouts are high in the early years of retirement while Social Security is being deferred. We are very encouraged at the reaction we are getting from both. I believe the challenges in getting someone to defer Social Security can be overcome if they are provided with a plan on how to optimize Social Security and with how to use their 401(k) or IRA as a bridge.

Employers are crucial to bringing this type of help to the broadest number. Aside from Social Security, defined contribution (DC) plans represent the largest source of potential retirement income for millions of American workers. The scale economics of DC plans make it possible for <u>all</u> participants to benefit from institutionally-priced investment products and advisory help. Moreover, the fiduciary role that plan sponsors play is instrumental in making sure participant interests are protected.

In conclusion, we urge more be done to encourage employers to provide retirement income help including help with Social Security strategies for their employees. Every day tens of thousands of Boomers retire, more than half of whom are women. Most of those over 62 start taking Social Security within two months of leaving the workforce, a decision that is irrevocable. Women stand the most to gain by better Social Security decisions and help with maximizing their retirement accounts.

I would like to once again thank the Special Committee on Aging for this opportunity to provide testimony.

Exhibit 1

Retirement Income Solutions and Annuities - Help Offered in 401(k) Plans*

Plans Already Offer	Retirement Income Solutions
71%	**Online modeling tools** to help participants determine how much they can spend each year in retirement
42%	**Distribution from plan/automatic payment** (participant elects an automatic payment from the plan over an extended period of time)
11%	**In plan; annuity or insurance products** (e.g., variable annuity features, guaranteed minimum withdrawal benefits, preservation of principal, minimum annuity payout, other)
10%	**In plan; managed accounts with drawdown features** (managed account provider allocates participant assets as well as manages the amount paid each year from the plan)
10%	**In plan; managed payout funds** (funds with an allocation targeted at a specific payout percentage each year with no guarantees)
9%	**Facilitation of annuities outside the plan** as options for plan distributions
6%	**Ability to transfer assets to a Defined Benefit plan in order to receive an annuity**

*Source: Aon Hewitt, 2012 Hot Topics in Retirement.

STATEMENT OF

SABRINA L. SCHAEFFER

EXECUTIVE DIRECTOR, INDEPENDENT WOMEN'S FORUM

BEFORE THE

SENATE SPECIAL COMMITTEE ON AGING

July 24, 2012

Chairman Kohl, Ranking Member Corker, and Members of the Committee thank you for the opportunity to discuss the shortcomings of the current Social Security system and why women's groups are out to encourage fundamental reform.

Social Security Overview

For nearly eight decades, along with personal savings, Social Security has helped provide retirees with a basic level of retirement security. And today's retired population should be able to count on the promises our government has made. That's why no one proposes changing benefits for those depending on Social Security today.

However, as it is currently structured, Social Security is unsustainable and unfair. And with our national debt swelling to nearly $16 trillion, Americans increasingly recognize that comprehensive reform of Social Security needs to be a part of our long-term debt solution.

If we act now – and if we address the program's costs and inequities in a responsible, forward-looking way – we have a chance to reform and preserve the program for future generations while ensuring the retirement security of today's working men and women who will come to depend on Social Security's future solvency.

First, we must understand the root of today's problem:

Social Security's pay-as-you-go pyramid structure was designed with the idea of having a substantial base of individuals paying into the system, with a much smaller number of people receiving benefits. And at the time the Social Security Act was implemented into law in 1935, that's exactly the way society looked. In fact, in 1940 there were more than 150 workers paying in to Social Security per beneficiary. But that ratio has shifted dramatically over the years. By 1960, there were just five workers per beneficiary; by 1990, it dropped to 3.4 workers for each beneficiary; and today, there are less than three workers per beneficiary.

And that ratio is only going to continue to worsen. The reality is today we have a growing number of retirees, longer life expectancies, and lower birth rates – all of which corrode the pay-as-you-go structure. It follows that, as the number of workers-per-retiree drops, the amount each worker will be required to contribute to keep the program sustainable will increase.

Already today Social Security payroll taxes aren't generating enough money to cover benefits. The current shortfall is due, in part, to high unemployment; but even if the employment situation improves, it will not be enough to balance the oncoming tsunami of retiring Baby Boomers.

The Social Security administration has a Social Security Trust Fund with about $2.6 trillion in assets. When payroll taxes aren't enough to pay benefits (there was a nearly $50 billion hole in 2010), the Social Security Administration (SSA) simply cashes in the bonds in the Trust Fund to make up the difference. But when the SSA cashes in those bonds, the General Treasury has to come up with the money to pay the SSA back. In other words, the Trust Fund may be an asset for Social Security, but it's a liability for American taxpayers.

This means that in addition to paying payroll taxes, in future years Social Security will become a major line item in the general budget. This will put additional pressure on our already strained resources and increase our enormous deficit and national debt. It will mean that Congress will have less money to spend on other national priorities because tens of billions – and ultimately hundreds of billions – will have to go to pay back Social Security's Trust Fund.

But the picture is even more grim. The fact is even Social Security's Trust Fund is expected to run out in about twenty-five years. This means that today's youngest workers are paying into a system that may never pay them back. When today's Millennial Generation retires, payroll taxes will cover about 77 percent of promised benefits.

That means that if nothing is done to change Social Security, future beneficiaries will see their checks slashed. What's more, a 77-percent return is a poor investment for today's youngest workers.

What this means for Women

Of course, finding a way to keep Social Security solvent and to increase our national savings and economic growth are only one part of the picture. The reality is Social Security is inherently unfair, produces a low rate of return on investment, does little to close the wealth gap, and ignores the very real problem of ownership and control.

Women are a particularly disadvantaged group as a result of the program's antiquated defined benefit system. The fact is Social Security's benefit structure has remained largely unchanged since it was established in 1935; the same, of course, cannot be said for women's roles in society.

Social Security's benefit formula is a relic of a bygone era when many more Americans were a part of a traditional, single-earner family, in which the husband was the breadwinner and women worked within the home. Today, however, a minority of Americans live in this family structure. Most women, married and unmarried, work outside the home. Many women are putting off marriage and childbearing until much later in life, others never marry, and divorce is far more common.

At its core, the current benefit structure remains highly regressive. As a result, many women lose out under Social Security's calculations. Consider, for instance, the problem of the outdated "dual entitlement rule." The architects of Social Security designed the program so that at the time of retirement the spouse with the lower lifetime earnings (usually the wife) would receive either a benefit equal to her own earnings or half of her spouse's benefits. At a time when far fewer women worked outside of the home, this may have made sense.

But today this means that working women often end up no better off than women who never worked outside of the home and never paid into the system. Stay-at-home spouses who are not contributing financially to Social Security are benefiting at the expense of women working outside of the home, who are required to pay Social Security taxes but don't receive any additional benefits. And this design is particularly pernicious for certain subgroups, like African American women, who are less likely to be married than white women.

The problems are even more extensive. In 1935, divorce was far less common than it is today. Still the structure of the program has not kept pace. Divorced women then and now must have been married for 10 years in order to receive Social Security benefits based on her former-husband's earnings. That may have seemed generous in the 1930s, but today millions of women who find themselves in bad marriages are penalized by this policy, and many newly divorced women must start from square one in saving for retirement.

And Social Security also fails many single women. A single-mom, for example, who has paid Social Security's taxes her whole life, while struggling to make ends meet, will leave her adult children only Social Security's paltry $255 death benefit. Her years of work and thousands put into the system will have been for nothing.

And single, working women (and men) without children who die prematurely receive the harshest punishment. The state reclaims all of their contributions to Social Security, without an option to leave savings to other relatives, friends or charity.

Still, traditional women's groups continue to pull out all the stops to prevent long-overdue, fundamental reform of Social Security. At a time when women outperform men academically, are soaring to the top of nearly every professional arena, are increasingly becoming the breadwinners, and have more choices than ever before, feminists should move beyond this antiquated view of Social Security as the best we can do for women. The fact is gender imbalance is a serious liability of Social Security.

The Solution is Not More of the Same

The solution for women is not more "wealth distribution;" rather, women need a retirement plan that reflects the changing roles of women and the American family in the 21st century.

Instead of allowing Social Security to continue on this path of burdening American taxpayers, adding to our debt, and ultimately disappointing beneficiaries and treating some Americans unfairly, Congress should make prudent changes to make Social Security more equitable and more financially stable.

There are many ways to reduce Social Security's costs. For example, Congress could consider raising the age of eligibility for Social Security.

In 1940, a man who reached age 65 was expected to live an average of 12.7 more years, and a woman was expected to live 14.7 years. By 1990, the 65-year-old man is expected to live 15.3 years and the woman 19.6. That's two and a half more years of payments for the man and five more years of payments for the woman. Those extra checks add up.

Adults today also are much more likely to reach retirement age. In 1940, a 21-year-old man had a 54 percent change of reaching 65, while a 21-year-old woman had a 61 percent chance. By 1990, a man who made it to 21 had a 72 percent chance of reaching 65, and the woman had an 84 percent chance. That means that in the past, many workers who paid Social Security taxes never collected benefits while today the vast majority of young workers live long enough to collect benefits.

These trends are great news for all of us who can expect to live longer and healthier, but it's obviously a strain on Social Security's finances. When Social Security was envisioned, no one expected millions of Americans to receive retirement checks for more than thirty, or even forty, years. Yet that's increasingly the case today, and will become more commonplace as life expectancies continue to rise.

Social Security's age of eligibility could be gradually raised and indexed to life expectancy to help bring costs down and return the system to its original intentions.

There are also numerous proposals to change how cost of living increases are calculated. Many estimate that current beneficiaries who earned the same Social

Security payments get more today in real dollars than beneficiaries in years past, because of the method used for determining inflation. Congress should consider more accurate ways to estimate inflation so that benefits are stable, and not artificially inflated.

Congress should also consider explicit reductions in benefits that are paid out to high-income retirees. Social Security isn't meant to be a welfare program, and the benefits that are received are supposed to bear a relationship to taxes paid in during one's working life. Yet given Social Security's bleak prospects, changes have to be made, and those seniors with the highest incomes will be better able to withstand reduced benefit payments. It may not be fair, but it may be necessary.

Reducing Social Security's future costs will be necessary to avert economic disaster and make sure that the program is sustainable in the long term. But these changes alone aren't enough. And in fact, while necessary, such changes will exacerbate some of Social Security's other flaws.

For example, reductions in the growth of future benefits will make the system a worse deal for program participants. Those who die before or immediately after retirement age will still have nothing or little to show for a life-time of contributions to Social Security. How much someone receives from Social Security will still be influenced by marital status and life expectancy, creating unfair outcomes for many.

But simply making the current Social Security system sustainable shouldn't be the only goal of reform. Ultimately, policymakers must consider how to move toward a system that allows people to save and invest on their own.

Individual retirement accounts are one way women (and men) could own and control their savings and bring much higher returns that they can pass on to family or charity. What's more, they would also decrease Americans' dependence on the federal government, lower the national debt, and restore the long-term solvency of Social Security.

There are many ways to incorporate a system of personal accounts into Social Security while maintaining a basic safety net (to make sure that, regardless of the performance of the financial markets, everyone eligible for Social Security receives income support that keeps them out of poverty). While policymakers address Social Security's immediate financial challenges, they should also consider how to turn this often arbitrary pay-as-you-go system into a system that gives the American people real freedom to save for retirement in a way that best suits their needs.

In the end, women want what we all want today; the freedom to save and invest in a way that reflects the needs of our family and plans for the future.

NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

Testimony of Joan Entmacher
Vice President for Family Economic Security, National Women's Law Center

Senate Special Committee on Aging
Strengthening Social Security and SSI to Improve Women's Retirement Security
July 25, 2012

Chairman Kohl, Ranking Member Corker, and members of the Committee, thank you for giving me the opportunity to testify today on behalf of the National Women's Law Center and for holding this hearing. Too often, policy discussions about Social Security are all about ways to cut already modest benefits. It's a pleasure and an honor to be invited to discuss ways to improve Social Security to address the challenges women continue to face in achieving retirement security.

My testimony will discuss why improving Social Security is a key strategy for improving retirement security for women and some specific ways that Social Security benefits can be enhanced for women, such as increasing the Special Minimum Benefit, recognizing caregiving, reforming benefits for surviving spouses, and adopting a measure of inflation that more accurately reflects seniors' higher health care costs. I'll also discuss reforms to Supplemental Security Income (SSI) that are needed to ensure that any improvements in Social Security benefits actually help the poorest beneficiaries and, more generally, to update this crucial safety net program for elderly women.

Women still face challenges to achieving a secure retirement

Women have greatly increased their participation in the paid labor force in recent decades,[1] and the gap between men's and women's earnings has narrowed.[2] Future cohorts of women will receive higher Social Security benefits as workers, and are more likely to have other work-related retirement benefits than today's female beneficiaries.[3] Yet substantial gaps between men and women remain. The poverty rate for elderly women today is 60 percent higher than for men,[4] and future female retirees will remain at higher risk of poverty in old age than men for several reasons.

The wage gap persists for women working full time, year round, even though it is smaller than in past decades; the typical woman working full-time, year round is paid only 77 cents for every $1 paid to her male counterpart, and the earnings gap is even larger for women of color.[5] Nearly two-thirds of adult minimum wage workers are women.[6] And women are still more likely than men to work part time[7] and take time out of the labor force for family caregiving.[8] This makes the lifetime earnings gap between women and men far greater than the annual earnings gap, and lifetime earnings determine Social Security benefits and retirement savings.[9] Women working today are about as likely as men to have access to a retirement plan at work;[10] but because of their lower earnings, women's pension benefits and retirement savings will be lower.[11] Women are far more likely than men to be single parents,[12] bearing heavier financial responsibilities that limit their ability to save.[13] And, compared to past generations of women, future female retirees are more likely to have been single parents and are more likely to be unmarried at retirement,[14] increasing their risk of financial insecurity despite increased participation in the workforce. In addition, women generally live longer than men;[15] over a longer lifespan, assets are depleted, income other than Social Security is eroded by inflation, and medical needs and costs increase.[16] And, women spend more years in retirement without the support of a spouse.

Social Security is the key to improving retirement security for women

For most Americans – especially women – Social Security is the foundation of economic security in retirement.[17] Social Security provides more than 60 percent of family income on average for female beneficiaries 65 and older. It's virtually the only source of income (90 percent or more) for about three in ten female and two in ten male beneficiaries 65 and older. It's even more important to women as they age; Social Security is virtually the only source of income for about four in ten female beneficiaries 80 and older. Without income from Social Security, half of all women 65 and older would be poor. (Although it is not the focus of this hearing, Social Security also provides critically important life and disability insurance benefits to women and their families that are especially important in communities of color.)

Social Security plays this critical role in women's retirement security even though its benefits are modest. The average Social Security benefit for women 65 and older is about $12,100 per year, compared to about $16,000 for men 65 and older.[18]

Enhancing Social Security benefits is the most effective way to increase retirement security for Americans, especially women. Social Security is virtually universal; fully portable between jobs; covers low-paid, part-time and temporary workers, and the self-employed; uses a progressive benefit formula; provides secure, predictable, retirement benefits that last for life; is not subject to the ups and downs of the stock market or the risk of depletion prior to reaching retirement; adjusts annually for inflation; provides automatic benefits to eligible spouses, surviving spouses, and divorced spouses, and dependent children; includes disability and life insurance benefits as well as retirement benefits; imposes few responsibilities on employers; and is highly efficient. It spends less than 1 percent of the funds collected each year on administrative costs.[19]

Since our Social Security system was first created in 1935, it's been improved for women in several ways.[20] In 1939, Social Security became a family insurance program, with protection for spouses and children against the loss of income when a worker retires or dies. In 1950, coverage was expanded to domestic workers, overwhelmingly women of color, and farm workers, and benefits were significantly increased. Disability benefits were added in 1956. In 1965, divorced spouses become eligible for benefits if married for 20 years. In 1972, automatic cost of living adjustments were enacted, protecting benefits from being eroded by inflation over women's longer lifespans. That same year, the widow's benefit was increased to 100 percent of the worker's benefit, if both spouses claimed at their full retirement age. In 1977, Congress reduced the duration of marriage requirement for divorced spouses to 10 years, and the Supreme Court ruled that benefits for widows and widowers had to be awarded on a gender-neutral basis.

With all Americans facing greater economic risks in today's economy – and older women still at greater risk of poverty and economic insecurity than older men – it's time for Congress to improve Social Security and Supplemental Security Income.

Ways to strengthen Social Security for women

Before I describe proposals for strengthening Social Security to increase retirement security for women, I would emphasize, "First, do no harm." Cuts to Social Security benefits that have been proposed as part of some deficit reduction plans would increase poverty and hardship for many older women.

For example, one proposal would replace the current inflation index for calculating cost of living adjustments (COLAs) with the chained-CPI-U. The current index, as I will explain later, already underestimates inflation for the elderly. The chained-CPI underestimates it even further, and using it to calculate COLAs would reduce benefits for current and future beneficiaries compared to the current inflation index. Because the impact of a COLA reduction increases with every year of benefit receipt, the cuts would be deeper for women because they generally live longer than men. And the cuts would be even more painful for women, because women already have lower Social Security benefits and higher poverty rates than men. [21]

Another benefit cut that has been proposed would further increase the retirement age. The already legislated increase in the retirement age from 65 to 67 represents an across-the-board benefit cut of 13.3 percent, and every additional year of increase would cut benefits by an additional 6 to 7 percent.[22] Such an increase hits low-wage workers particularly hard, because they are more likely to work in physically demanding jobs. [23]

My testimony will highlight some key proposals for improving Social Security for women, including improving the minimum benefit, crediting caregiving, reforming the benefit for surviving spouses, and using the more accurate Consumer Price Index for the Elderly to calculate the COLA. Variations of these proposals have been discussed by policymakers, researchers, and advocates for many years; I would like to acknowledge the work of many who have explored these ideas and cite just a few recent reports here.[24] I also note that this testimony focuses on improving retirement security for economically vulnerable women; it doesn't address other Social Security reforms, including improvements to benefits for people with disabilities, including disabled adult children; restoring the student benefit; ending discrimination against same-sex couples and their children; and increasing benefits broadly to improve retirement security for the middle class.

Improve the Special Minimum Benefit for low lifetime earners

The regular Social Security benefit formula is progressive. It provides workers with low lifetime earnings a benefit that represents a higher percentage of their pre-retirement income than higher-income workers. However, benefits are proportional to average lifetime earnings, and for workers with very low lifetime earnings, benefits calculated under the regular formula will still be very low. Many retired workers, especially women, receive benefits that provide less than a poverty-level income: more than 40 percent of female workers compared to 17 percent of male workers receive below-poverty benefits.[25]

Social Security has an alternative benefit formula, the Special Minimum Benefit (SMB), which was intended to "provide long-term workers with an income that would free them from dependency on welfare."[26] Workers receive the higher of a benefit calculated under the SMB or any other benefit to which they are entitled, under the regular formula as a worker or as a spouse, surviving spouse, or divorced spouse of a higher earner.

However, the current SMB does little to help workers with low benefits. Only about 76,000 people – a little over one-tenth of one percent of all beneficiaries – receive benefits under the SMB.[27] The number has been declining because the SMB is price-indexed, while the regular formula is wage-indexed; soon, the SMB will disappear entirely. Another reason the SMB is ineffective is that it requires significant earnings for a year of credit: it takes $12,280 in 2012 to qualify for one year of credit toward the SMB, compared to only $4,530 to qualify for a year (4 quarters) of credit toward Social Security. For a woman earning the minimum wage of $7.25 an hour, earning one year of credit toward the SMB requires steady employment of about 35 hours a week, 50 weeks a year. But the low-wage labor market is characterized by unstable, part-time and seasonal jobs, and the work histories of low earners are interrupted by caregiving – a particularly important factor for women – unemployment, or poor health.[28] And, if a worker falls even $1 short of the threshold, she gets no credit toward the SMB. Finally, even workers who have the 30 years of qualified earnings needed to receive the maximum SMB receive a benefit that leaves them $1,300 below the federal poverty threshold.[29]

The following changes would make the SMB more effective in providing a meaningful benefit:

- Increase the maximum value of the benefit to at least 125 percent of the federal poverty level;
- Reduce the earnings needed to earn credits toward the SMB to the same amount required for regular Social Security credits, and allow workers to earn partial credit, as they can under the regular Social Security formula;
- Index initial benefits to wage growth, the way regular benefits are indexed; and
- Provide up to 8 years of credit toward the SMB for years in which a worker was caring for a young child or dependent adult.

Credit caregiving in the regular benefit formula

Many workers, especially women, take time out of the paid labor force to care for children, elderly parents, or other family members, often sacrificing both current income and retirement security. Many other countries provide pension credits for such socially and economically vital caregiving work.[30] However, Social Security does not provide credit for lost or reduced earnings due to caregiving, so those who took time out of the labor force, worked part-time, or accepted lower pay in exchange for the flexibility to meet caregiving responsibilities can see significantly lower benefits. The only way Social Security currently compensates caregiving is indirectly, through spousal benefits. But many caregivers do not qualify for spousal benefits.

To provide credit for caregiving:

- Provide up to at least 5 years of credit when a worker was caring for a young child, older disabled child, or other dependent relative; and
- Impute earnings for caregiving years up to 50 percent of the average wage that year ($21,758 in 2011).

Improve benefits for widowed spouses

Social Security provides benefits to surviving spouses that, like all Social Security benefits, are available on an equal basis to women and men, widows and widowers. However, about 98 percent of those receiving benefits as a surviving spouse are widows.[31] In the future, the percentage of surviving spouse benefits that go to men is likely to increase above two percent – but with most husbands continuing to have higher lifetime earnings than their wives, and most wives outliving their husbands, the surviving spouse benefit will continue to be particularly significant for women. Looking at trends among women, because of changing marital histories, a smaller percentage of future female retirees, especially African American women, will be eligible for Social Security spousal benefits.[32] So improvement of the widow(er)'s benefit should be part of a broader reform plan.

Social Security offers a widowed spouse a benefit equal to 100 percent of the deceased spouse's benefit, assuming no early retirement reductions apply. It was designed to provide basic income security for a surviving spouse, so a widowed spouse who is also eligible for his or her own worker benefit can receive the higher of the worker benefit or the benefit to which she or he is entitled as a widow(er), but not both, a policy referred to as the "dual entitlement rule." The following examples illustrate how the survivor benefit works, assuming both spouses claim benefits at full retirement age:

(1) George receives a monthly Social Security benefit of $1,000 per month. His wife Martha doesn't have sufficient credits to qualify for Social Security and receives a benefit as a spouse of $500 per month, giving the household combined benefits of $1,500. At widowhood, Martha receives a benefit of $1,000, 67 percent of their combined benefits.

(2) John and Abigail have equal lifetime earnings and equal monthly benefits of $750, for combined benefits of $1,500. At widowhood, Abigail receives a $750 benefit, because her benefit as a worker offsets her benefit as a widow dollar for dollar. The benefit she receives when widowed is 50 percent of their combined benefits.

These examples highlight several features of the current surviving spouse benefit. First, household Social Security benefits drop at widowhood by 33 percent to 50 percent. Although the cost of maintaining a household declines when there is only one person to support, based on the Census Bureau's poverty thresholds a one-person elderly household needs 79 percent of the income of a two-person household to maintain the same standard of living.[33] Second, the decline in Social Security benefits at widowhood is largest for households in which the spouses' earnings were more equal. Third, the survivor of a dual-earner couple who contributed more to Social Security over their working lives can end up with a lower benefit than the survivor of a single-earner couple that contributed less. Moreover, these examples assume that both spouses waited to their full retirement age to claim benefits; if either claims benefits earlier, the survivor benefit would be further reduced.

The drop in Social Security income at widowhood is a significant factor in widows' poverty. And, it is often accompanied by a drop in pension income, loss of earnings from a spouse who was still employed, or depletion of assets due to medical and other expenses associated with the death of a spouse.[34] Ironically, the increase in labor force participation by married women and the increased share of household income contributed by wives means that more widows – and widowers – in the future will experience a drop in household Social Security benefits that approaches 50 percent.

To make benefits for widow(er)s more adequate and equitable by allowing a surviving spouse to benefit from the contributions both have made to Social Security:[35]

- Provide an alternative benefit equal to 75 percent of the sum of the spouses' combined worker benefits, without reducing the value of the deceased spouse's benefit used in the calculation because of that spouse's decision to claim benefits before full retirement age;
- Target the benefit improvement to low- and moderate-income couples by capping the alternative benefit (for example, at the benefit for a worker with lifelong average earnings – about $19,000 for an individual retiring at age 66 in 2012);
- Provide individuals the higher of the current law widow(er)'s benefit or the new alternative benefit; and
- Improve benefits for disabled widow(er)s – a small but particularly vulnerable group[36] – by eliminating the age 50 requirement, the requirement that the disability occur within seven years of the spouse's death or last eligibility for benefits as a caregiving parent, and actuarial reduction for claiming benefits early. These limitations serve no purpose for a group that is, by definition, unable to work and no longer has the support of a spouse.

Improve the Cost-of-Living Adjustment to reflect elders' true cost of living

To prevent inflation from eroding the value of Social Security benefits over time, Social Security provides an automatic annual cost-of-living adjustment (COLA) based on the Consumer Price Index (CPI). This protection is especially important to women, who are 73 percent of beneficiaries age 90 and older.[37] But the current CPI underestimates the effect of inflation on the elderly because it doesn't reflect the spending patterns of older Americans, who spend twice as large a share of their budgets on health care, where costs are rising much more rapidly than for other goods and services.

When the annual COLA became a part of Social Security 40 years ago, there was only one Consumer Price Index: the CPI-W, which is based on the spending patterns of urban wage earners, a group that does not include retirees. Recognizing the need to update the COLA, 27 years ago, in the Older Americans Act of 1987, Congress directed the Bureau of Labor Statistics to develop an alternative experimental Consumer Price Index for the Elderly, the CPI-E, to take account of the spending patterns of elderly individuals.

The Bureau of Labor Statistics developed and tracked the CPI-E, and estimates of the rate of inflation under the CPI-E have been about 0.2 and 0.3 percentage points higher than under the CPI-W, because of the greater weight given to health care spending. However, Congress has not adopted the more accurate CPI-E for calculating Social Security and Supplemental Security Income benefits.

Because the current Social Security COLA doesn't reflect the rising cost of health care, health care costs consume a greater share of the Social Security check over time, leaving seniors less money to meet other needs. Replacing the current CPI with one that more accurately reflects the impact of inflation on the elderly would be particularly helpful to women, just as replacing the current CPI with a lower, less accurate index – the chained-CPI – would be particularly harmful.

To make the COLA more accurate and adequate:

- Replace the CPI-W with the CPI-E for calculating Social Security and Supplemental Security Income benefits.

Ways to strengthen Supplemental Security Income for the most vulnerable women

When considering ways to improve women's retirement security, it is important not to overlook Supplemental Security Income (SSI). SSI is a means-tested program intended to provide a basic income floor for society's most economically vulnerable citizens – the elderly poor and poor adults and children with disabilities. It is a particularly critical program for women, who make up over two-thirds of all beneficiaries 65 and older.[38]

In general, improving Social Security benefits has advantages as a strategy to increase retirement security for lower-income women. Social Security is not means tested, has a simple and unstigmatized process for applying for retirement benefits, and does not require monitoring things like groceries or other items provided by an adult child to an elderly parent to maintain eligibility. However, improving Social Security benefits without addressing SSI could leave many poor beneficiaries who are eligible for both programs behind – and more than half of elderly SSI beneficiaries also have earned Social Security benefits. It could even make some beneficiaries worse off. More generally, SSI has barely changed in the 40 years since it was enacted. It is in desperate need of modernization to function as an effective safety net for the poorest women. [39]

Ensure that SSI beneficiaries can benefit from improvements in Social Security and SSI

As a means-tested program, SSI rules count Social Security benefits as income for purposes of determining eligibility and the amount of benefits. To be precise, SSI treats Social Security benefits as "unearned" income. With the exception of a $20 per month general income disregard, every additional $1 in Social Security benefits means $1 less in SSI benefits. In addition, if the increase in Social Security benefits raises an SSI recipient's income enough to render them ineligible for SSI, it would result not only in a loss of SSI benefits, but also of Medicaid benefits, for which SSI recipients automatically qualify.

To protect SSI beneficiaries from harm and ensure they receive the benefit of any improvements to Social Security:

- Provide that increases in Social Security benefits are passed along in full to beneficiaries eligible for both SSI and Social Security.

Modernize SSI's income disregard and asset limit rules

SSI turns 40 this year, and it has not changed substantially since it was signed into law in 1972. In order to function as an effective anti-poverty program, modernization is badly needed, and there are several provisions that should be changed to bring the program into the 21st century.[40] I want to focus on two, however, that are particularly outdated and in need of immediate improvement: SSI's income disregard and asset limit rules.

As discussed above, SSI's disregard for "unearned", general income – including Social Security benefits – is only $20 per month, an amount that has not increased since the program was created 40 years ago. As a result, many individuals who have worked hard and contributed to Social Security throughout their lives receive no added benefit.

The current asset limit for SSI is just $2,000 for an individual, $3,000 for a couple, amounts that Congress hasn't updated in nearly 30 years. These low limits make it nearly impossible for an SSI recipient to save for emergencies or even daily needs.

To bring the income disregard and asset limit rules up to date and increase SSI's effectiveness:

- Increase the general income disregard from $20 to at least $100 per month.
- Increase the asset limit to at least $10,000 for an individual, $15,000 for a couple.
- Index both levels to inflation so that they keep up with the cost of living and do not erode over time.

Conclusion

Strengthening Social Security for women will require ensuring payment of promised benefits as well as improving benefits. It is possible to do both – if Congress has the will to do it.[41]

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[12] U.S. Census Bureau, *Current Population Survey*, Annual Social and Economic Supplement, Table POV04: Families by Age of Householder, Number of Children, and Family Structure: 2010 (2011), http://www.census.gov/hhes/www/cpstables/032011/pov/new04_100_01.htm. Count of female- versus male-headed households with at least one child under 18; single mothers represented 78.5 percent of single parent families in 2010.
[13] Wider Opportunities for Women, *Living Below the Line: Economic Insecurity and America's Families*, Basic Economic Security Tables, figures 3 and 5, *available at* http://www.wowonline.org/documents/WOWUSBESTLivingBelowtheLine2011.pdf.
[14] D'Vera Cohn, Jeffrey Passel, Wendy Wang, and Gretchen Livingston, *Barely Half of U.S. Adults Are Married – A Record Low*, Pew Social and Demographic Trends, (Dec. 2011), *available at* http://www.pewsocialtrends.org/2011/12/14/barely-half-of-u-s-adults-are-married-a-record-low/.
[15] Elizabeth Arias, *United States Life Tables, 2007*, 59 National Vital Statistics Reports 9, 7 (Sept. 2011), *available at* http://www.cdc.gov/nchs/data/nvsr/nvsr59/nvsr59_09.pdf.
[16] Brian W. Cashell, Cong. Research Serv., RS20060, *A Separate Consumer Price Index for the Elderly?* 4-5 (Jan. 20, 2010), *available at* http://aging.senate.gov/crs/aging9.pdf.
[17] All facts in this paragraph are from National Women's Law Center, *Women and Social Security* (Apr. 2012), *available at* http://www.nwlc.org/resource/women-and-social-security.
[18] *Ibid.*
[19] Virginia P. Reno, Elisa A. Walker, and Thomas N. Bethell, National Academy of Social Insurance, *Social Security Finances: Findings of the 2012 Trustees Report*, Social Security Brief No. 39 (Apr. 2012), *available at* http://www.nasi.org/sites/default/files/research/SS_Finances_Findings_of_the_2012_Trustees_Report.pdf.
[20] For a history of Social Security, including all of the developments mentioned in this paragraph, see Social Security Administration, Social Security History, *available at* http://www.ssa.gov/history/ (last visited July 19, 2012).

[21] Joan Entmacher and Katherine Gallagher Robbins, National Women's Law Center, *Cutting the Social Security COLA by Changing the Way Inflation is Calculated would Especially Hurt Women* (June 2011), *available at* http://www.nwlc.org/sites/default/files/pdfs/cuttingsocseccola.pdf.
[22] Virginia Reo, Thomas Bethell and Elise Walker, National Academy of Social Insurance, *Social Security Beneficiaries Face 19% Cut; New Revenue Can Restore Balance* (June 2011), *available at* http://www.nasi.org/sites/default/files/research/SS_Brief_037.pdf.
[23] Hye Jin Rho, Center for Economic and Policy Research, *Hard Work? Patterns in Physically Demanding Labor Among Older Workers* (Aug. 2010), *available at* http://www.cepr.net/documents/publications/older-workers-2010-08.pdf.
[24] *See, e.g.*, National Committee to Preserve Social Security and Medicare, National Organization for Women Foundation and Institute for Women's Policy Research, *Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits* (May 2012), *available at* http://www.ncpssmfoundation.org/Portals/0/embargo_breaking_ss_glass_ceiling.pdf; Commission to Modernize Social Security, *Plan for a New Future: The Impact of Social Security Reform on People of Color* (Oct. 2011), *available at* http://www.insightcced.org/New_Future_Social_Security_Commission_Report_Final.pdf ; Virginia Reno and Joni Lavery, National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing* (Oct. 2009), *available at* http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf; Joan Entmacher, National Women's Law Center, *Strengthening Social Security Benefits for Widow(er)s: The 75% Combined Worker Benefit Alternative* (Nov. 2008), *available at* http://www.nwlc.org/sites/default/files/pdfs/BenefitImprovementforWidowsFeb09.pdf.
[25] Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2011* (2012), Table 5.B9: Number and percentage distribution, by sex, monthly benefit, and age, December 2010, *available at* http://www.ssa.gov/policy/docs/statcomps/supplement (the poverty line for one elderly individual in 2010 was about $871.50 per month).
[26] *See* Kelly Olsen and Don Hoffmeyer, *Social Security's Special Minimum Benefit*, 64 Social Security Bulletin (2001-2002), *available at* http://www.ssa.gov/policy/docs/ssb/v64n2/v64n2p1.pdf.
[27] *Annual Statistical Supplement to the Social Security Bulletin, 2011, supra note 25 at* Table 5.A1: Number and average monthly benefit, by type of benefit and sex, December 2010 and Table 5.A8: Number, average primary insurance amount, and average monthly benefit for persons with benefits based on special minimum primary insurance amount, by type of benefit and sex, December 2010.
[28] Melissa Favreault, Urban Institute, *A New Minimum Benefit for Low Lifetime Earners* (2008), *available at* http://www.nasi.org/publications2763/publications_show.htm?doc_id=819525.
[29] Social Security Administration, *Special Minimum Benefit Tables*, *available at* http://www.ssa.gov/oact/progdata/tableForm.html. Effective December 2011, the maximum primary insurance amount for someone with 30 years of coverage was $790.60 per month, or less than $9,500 per year. In 2011, the Census's poverty threshold for a single adult 65 and older was $10,788. (*see* U.S. Census Bureau, *Poverty Thresholds by size of family and number of children for 2011*, *available at* http://www.census.gov/hhes/www/poverty/data/threshld/index.html.
[30] Elaine Fultz, Institute for Women's Policy Research, *Pension Crediting for Caregivers, Policies in Finland, France, Germany, Sweden, the United Kingdom, Canada, and Japan*, (2011), *available at* http://www.iwpr.org/publications/pubs/pension-crediting-for-caregivers-policies-in-finland-france-germany-sweden-the-united-kingdom-canada-and-japan. In 2009, 26 of 30 OECD member countries had pension crediting for caregivers. Only the U.S., Turkey, Mexico and Australia lacked these systems.
[31] *Annual Statistical Supplement*, 2011, *supra note 25*, Table 5.A1: Number and average monthly benefit, by type of benefit and sex, December 2010.
[32] *Women, Marriage, and Social Security Benefits Revisited, supra note 3.*
[33] NWLC calculations from U.S. Census Bureau, Poverty Thresholds, *Poverty thresholds by Size of Family and Number of Children for 2011*, *available at* http://www.census.gov/hhes/www/poverty/data/threshld/index.html.
[34] Kathleen McGarry and Robert F. Schoeni, "Medicare Gaps and Widow Poverty," Social Security Bulletin, Vol. 66, No. 1 (2005), *available at* http://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p58.pdf; Nadia Karamcheva and Alicia Munnell, Center for Retirement Research at Boston College, "Why Are Widows So Poor?" (July 2007), *available at* http://crr.bc.edu/briefs/why_are_widows_so_poor_.html.
[35] For more detailed information about this proposal, see *Strengthening Social Security Benefits for Widow(er)s,*

supra note 24.

[36] U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2010* (2011), *available at* http://www.census.gov/prod/2011pubs/p60-239.pdf. People with disabilities had higher rates of poverty in 2010 than those without disabilities. For those working full time, year round, men and women with disabilities had much lower median earnings in 2010 than their counterparts without disabilities.

[37] See *Cutting the Social Security COLA by Changing the Way Inflation Is Calculated Would Especially Hurt Women, supra note 21*, for information about the importance of the COLA to women, different ways of calculating it, and their implications.

[38] U.S. Social Security Administration, *SSI Annual Statistical Report, 2010* (Aug. 2011), *available at* http://www.socialsecurity.gov/policy/docs/statcomps/ssi_asr/. Federally Administered Payments, Table 5: By type of payment, sex, eligibility category, and age, December 2010.

[39] See National Senior Citizens' Law Center, *SSI Modernization: Improvements are Long Overdue* (June 2012), available at http://www.nsclc.org/wp-content/uploads/2011/07/SSI-Modernization-Revised12.pdf, for a discussion of the SSI reforms discussed in this testimony and other needed reforms.

[40] *Ibid.*

[41] Financing options sufficient to close Social Security's long-term shortfall and pay for various benefit improvements are included in *Breaking the Social Security Glass Ceiling* and *Fixing Social Security: Adequate Benefits, Adequate Financing, supra note 24.*

United States Government Accountability Office

GAO

Report to the Chairman, Special Committee on Aging, U.S. Senate

July 2012

RETIREMENT SECURITY

Women Still Face Challenges

GAO Accountability * Integrity * Reliability

GAO-12-699

GAO Highlights

Accountability * Integrity * Reliability

Highlights of GAO-12-699, a report to the Chairman, Special Committee on Aging, U.S. Senate

July 2012

RETIREMENT SECURITY

Women Still Face Challenges

Why GAO Did This Study

Elderly women, who comprise a growing portion of the U.S. population, have historically been at greater risk of living in poverty than elderly men. Several factors contribute to the higher rate of poverty among elderly women including their tendency to have lower lifetime earnings, take time out of the workforce to care for family members, and outlive their spouses. Other factors could affect older women's financial insecurity. These include the economic downturn and changing trends in pension plan offerings. In light of these circumstances, GAO was asked to examine (1) how women's access to and participation in employer-sponsored retirement plans compare to men's and how they have changed over time, (2) how women's retirement income compares to men's and how the composition of their income—the proportion of income coming from different sources—changed with economic conditions and trends in pension design, (3) how later-in-life events affect women's retirement income security, and (4) what policy options are available to help increase women's retirement income security. To answer these questions, GAO analyzed data from two nationally representative surveys, conducted a broad literature review, and interviewed a range of experts in the area of retirement security.

GAO is making no recommendations. GAO received technical comments on a draft of this report from the Department of Labor, the Department of the Treasury and the Social Security Administration, and incorporated them, as appropriate.

View GAO-12-699. For more information, contact Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

Over the last decade, working women's access to and participation in employer-sponsored retirement plans have improved relative to men. Indeed, from 1998 to 2009, women surpassed men in their likelihood of working for an employer that offered a pension plan, largely because the proportion of men covered by a plan declined. Furthermore, as employers have continued to terminate their defined benefit (DB) plans and have switched to defined contribution (DC) plans, the proportion of women who worked for employers that offered a DC plan increased. Correspondingly, women's participation rates in DC plans increased slightly over this same period while men's participation fell, thereby narrowing the participation difference between men and women to 1 percentage point. At the same time, however, women contributed to their DC plans at lower levels than men.

Although the composition of income for women age 65 and over did not vary greatly over the period—despite changes in the economy and pension system—women continued to have less retirement income on average and live in higher rates of poverty than men in that age group. The composition of women's income varied only slightly, in part, because their main income sources—Social Security and DB benefits—were shielded from fluctuations in the market. Women, especially widows and those age 80 and over, depended on Social Security benefits for a larger percentage of their income than men. For example, in 2010, 16 percent of women age 65 and over depended solely on Social Security for income compared to 12 percent of men. At the same time, the share of household income women received from earnings increased over the period, but was consistently lower than for men. Moreover, women's median income was approximately 25 percent lower than men's over the last decade, and the poverty rate for women in this age group was nearly two times higher than men's in 2010.

For women approaching or in retirement, becoming divorced, widowed or unemployed had detrimental effects on their income security. Moreover, divorce and widowhood had more pronounced effects for women than for men. For example, women's household income, on average, fell by 41 percent with divorce, almost twice the size of the decline that men experienced. For widowhood, women's household income fell by 37 percent—while men's declined by only 22 percent. Unemployment also had a detrimental effect on income security, though the effects were similar for women and men; household assets and income fell by 7 to 9 percent.

A range of existing policy options could address some of the income security challenges women face in retirement. For example, some would expand existing tax incentives to save for retirement while others would improve access to annuities. All of these options have advantages and disadvantages that would need to be evaluated prior to implementation. For example, increasing Social Security benefits for widows could provide additional income for women who have few options to increase their retirement savings. However, increasing benefits would also increase costs to the Social Security program and have implications for its long-term solvency.

Contents

Figures

Abbreviations

AHEAD	Asset and Health Dynamics of the Oldest Old
CODA	Children of the Depression Era
DB	defined benefit
DC	defined contribution
ERISA	Employee Retirement Income Security Act of 1974
HRS	Health and Retirement Study
IRA	individual retirement account
SCF	Survey of Consumer Finances
SIPP	Survey of Income and Program Participation

G A O
Accountability * Integrity * Reliability
United States Government Accountability Office
Washington, DC 20548

July 19, 2012

The Honorable Herb Kohl
Chairman
Special Committee on Aging
United States Senate

Dear Mr. Chairman,

Historically, elderly women have been at greater risk of living in poverty than elderly men. Several economic and demographic factors contribute to their higher poverty rates in old age. First, women's average annual earnings are consistently lower than men's. Second, women are more likely to take time out of the workforce to care for children and elderly relatives. These employment patterns result in lower retirement savings, reduced Social Security benefits,[1] and smaller pension benefits for women in comparison to men. Third, women tend to live longer than men, increasing the risk of exhausting their retirement savings before death. Finally, women are more likely than men to live alone in old age,[2] increasing their vulnerability to unexpected economic and health shocks due to the inability to pool resources with a partner or benefit from spousal care-giving in the event of an illness.

Recent economic events affecting both men and women have the potential to exacerbate older women's financial insecurity. The financial crisis and recent recession have resulted in depressed home values and high unemployment rates among younger and older Americans alike. At the same time, health care costs continue to rise. Efforts to address the financial challenges of Social Security and Medicare could lead to a

[1]Generally, Social Security retirement benefits are based on up to 35 years of a worker's indexed earnings. Average lower earnings over a lifetime and fewer years in the workforce lead to significantly lower average benefit amounts for women as compared to men. In 2009, the average annual Social Security income received by retired women was $12,155 compared to $15,620 for men, according to one study. See Carroll L. Estes, Terry O'Neill and Heidi Hartmann, *Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits*, Institute for Women's Policy Research, National Committee to Preserve Social Security & Medicare Foundation, and National Organization for Women Foundation (May 2012).

[2]This is due to at least two factors: women have longer life expectancies, and in marriages the husband is, on average, older than the wife by 3 years.

reduction in benefits for retirees.[3] In addition, the burden of saving for retirement and paying for old-age health care has been shifting from employers to employees in both the private and public sectors. In the private sector, for example, many employers continue to replace defined benefit (DB) pension plans with defined contribution (DC) plans and reduce or eliminate retiree health insurance benefits. At the same time, many employed in the public sector have seen a reduction in their pension benefits or an increase in employee contributions for those benefits.

In light of this unique confluence of circumstances, the Senate Special Committee on Aging requested that we explore the issue of women's retirement income security with a special focus on the effects of the recent financial crisis and subsequent recession, and the persistent trend of employers to replace DB with DC plans.[4] Specifically, this report examines (1) how women's access to and participation in employer-sponsored retirement plans compare to men's and how they have changed over time, (2) how women's retirement income compares to men's and how the composition of their income changed with economic conditions and trends in pension design, (3) how events occurring later in life affect women's retirement income security, and (4) what policy options are available to help increase women's retirement income security.

To address these questions, we analyzed two nationally-representative datasets, conducted an extensive literature review, and consulted with numerous experts. Specifically, to analyze plan coverage and participation rates among the working-age population, we used data for the late 1990s through 2009 from the Survey of Income and Program Participation (SIPP), a nationally-representative survey.[5] With these data,

[3]In 2008, about 69 percent of single women 65 and over living alone would have been living in poverty if it were not for Social Security benefits they received, according to a study published by the Institute for Women's Policy Research. See Jeff Hayes, Heidi Hartmann, and Sunhwa Lee, *Social Security: Vital to Retirement Security for 35 Million Women and Men,* Institute for Women's Policy Research Briefing Paper, IWPR Publication #D487 (March 2010).

[4]This report builds upon our past work for this committee. See GAO, *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement,* GAO-08-105 (Washington, D.C.: Oct. 11, 2007).

[5]Specifically, we used data from the 1996, 2001, 2004, and 2008 SIPP panel surveys, which are administered over a period of several years.

we computed descriptive statistics on plan coverage, eligibility, and participation rates and conducted an econometric analysis of each of these. To analyze median incomes and the income composition of the retirement-age population, we computed descriptive statistics using SIPP data from the late 1990s through 2010.[6] To understand the factors that affect women's income and assets, we developed a statistical model to estimate the effects of events occurring later in life, such as widowhood, using the Health and Retirement Study (HRS), a nationally representative dataset that tracks Americans 51 years or older over time.[7] We conducted a data reliability assessment of selected SIPP and HRS data and found that, for the purposes of our analysis, the data that we analyzed were sufficiently reliable. Finally, to identify policy options that could increase retirement income security among women, we conducted an extensive literature review and interviewed a range of experts in the area of retirement income security.[8]

We conducted this performance audit from March 2011 through July 2012 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. For more information on our scope and methodology, see appendix I.

[6]Data on income were available through 2010, while data on retirement plan coverage and participation were only available through 2009.

[7]Specifically, we used a statistical technique called "fixed-effects regression." Because the HRS tracks individuals over time, we were able to estimate the percentage change in household income and assets that occurs for an individual after a life event, relative to an individual that did not experience that life event, but also became older. In this way, we were able to isolate the effect of the life event from other factors. We used all available years of HRS data, including early release data for 2010. For more information on methods, see appendix I.

[8]To ensure that we obtained a balanced perspective, we interviewed experts with a range of viewpoints and from different types of organizations including government, academia, advocacy groups, and the private sector. For a list of organizations, see appendix I.

Background

Demographic and Labor Force Trends Affecting Women's Retirement Income Security

Since the early 1900s, female life expectancy has exceeded male life expectancy, resulting in women outnumbering men in the older age groups. Although gender differences in life expectancy have been decreasing, women age 65 and over continue to outnumber men age 65 and over. This trend is projected to continue over the next 4 decades. Further, the population age 65 and over is expected to more than double from 2010 to 2050.[9] The population of women among the "oldest-old"—those 85 and over—is also projected to grow.[10] Today, of those age 65 and over, one-sixth of women and one-tenth of men are among the oldest-old and this is projected to grow to almost one-quarter of women and one-fifth of all men by 2050.[11]

Women's workforce participation surged over the last half of the 20th century. Among women ages 25 to 54, the rate of labor force participation jumped from 42 percent by the end of the 1950s to about 74 percent by the late 1980s. The rate continued to grow in the 1990s but at a slower pace. Over the last decade, the rate declined slightly from its peak of 76.8 percent in 1999, and was 74.7 percent in 2011. Labor force participation rates have varied by generation, with women born in the baby boom generation much more likely to be in the workforce than preceding generations.[12] As baby boomers have aged, workforce participation rates have increased significantly for women ages 55 to 64 (see fig. 1).

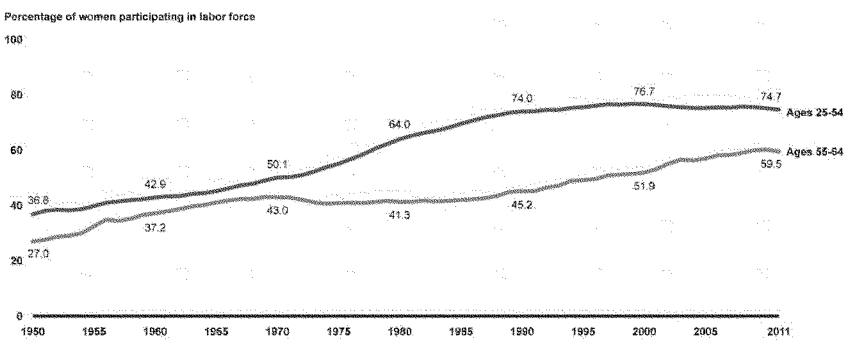
[9] Linda A. Jacobsen, Mary Kent, Marlene Lee, and Mark Mather, "America's Aging Population," *Population Bulletin*, Population Reference Bureau, vol. 66, no. 1 (2011).

[10] *Ibid.*

[11] *Ibid.*

[12] The baby boom generation consists of individuals born from 1946 to 1964.

Figure 1: Labor Force Participation Rates for Women, Ages 25 to 64



Source: GAO analysis of BLS data.

Despite their economic gains, women continue to have lower annual earnings than men, on average, and much lower lifetime earnings. In 2010, the median earnings of women working full-time were about $36,900, compared to $47,700 for men.[13] One study reported that a 25-year-old woman with a college degree will make about $523,000 less in wages over her lifetime compared to a man with a college degree.[14] Further, the study noted that of those retiring at age 62 in 2000, women were in the workforce for 12 years less than men, on average, primarily because they spent more time than men out of the workforce caring for family members.[15]

[13]Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2010" *Current Population Reports, Consumer Income*, United States Census Bureau, P60-239 (September 2011).

[14]Cindy Hounsell, *The Female Factor 2008: Why Women Are at Greater Financial Risk in Retirement and How Annuities Can Help* (Washington, D.C.: Americans for Secure Retirement, 2008).

[15]*Ibid.*

Sources of Retirement Income

Although the composition of retirement income—the proportion of income coming from different sources—varies greatly for individual households, Social Security benefits, pension income, and earnings make up the bulk of income for the U.S. population age 65 and over. Social Security provides retirement benefits to eligible workers, based on their work and earnings history. Social Security also provides benefits to eligible workers who become disabled before reaching retirement age, as well as spouses, widow(er)s, and children of eligible workers. Although all Social Security benefits are based upon a common formula, they are calculated in different ways for each beneficiary type.[16] The level of the monthly benefit is adjusted for inflation and varies depending on the age at which the beneficiary chooses to begin receiving benefits. Generally, beneficiaries may begin receiving retirement benefits at age 62; however, the payments will be higher if they wait to receive benefits at their full retirement age, which varies from 65 to 67, depending on the beneficiary's birth year. The monthly retirement benefit continues to rise for workers who delay benefits beyond their full retirement age, up to age 70. Employees and employers pay payroll taxes that finance Social Security benefits. However, Social Security faces a long-term financing shortfall resulting largely from lower birth rates and longer life spans. According to the Social Security Trustees, the Social Security Trust Funds could be exhausted by 2033 and unable to pay full benefits.[17]

Pension income from employer-provided retirement plans falls into two broad categories: DB and DC pension plans. DB plans typically provide retirement benefits to each retiree in the form of an annuity that provides a monthly payment for life, the value of which is typically determined by a formula based on particular factors specified by the plan, such as salary or years of service. Under DC plans, workers and employers may make

[16]For example, wives may be eligible to receive a spousal benefit equal to 50 percent of their husbands' benefits. If a wife receiving this benefit becomes widowed, then the benefit becomes a survivor benefit, and may equal up to 100 percent of the husband's benefit. For more information on how the different types of benefits are calculated, see GAO, *Social Security Reform: Issues for Disability and Dependent Benefits*, GAO-08-26 (Washington, D.C.: Oct. 26, 2007).

[17]The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: Apr. 25, 2012).

contributions into individual accounts.[18] Workers can also save for retirement through an individual retirement account (IRA). IRAs allow workers to receive favorable tax treatment for making contributions to an individual account.[19]

At retirement, participants' distribution options vary depending on the type of pension plan. Private sector DB plans must offer participants a benefit in the form of a lifetime annuity (either immediately or deferred). An annuity can help to protect a retiree against risks, including the risk of outliving one's assets (longevity risk) and, when an inflation-adjusted annuity is provided, the risk of inflation diminishing one's purchasing power. Some DB plans also give participants a choice to take a lump sum cash settlement (distribution) or roll over funds to an IRA, instead of taking a lifetime annuity.[20] In contrast, DC plan sponsors are not required to offer a lifetime annuity and more often provide participants with a lump sum distribution as the only option. Other options for DC participants may include leaving money in the plan, taking a partial distribution, rolling their plan savings into an IRA, or purchasing an annuity, which are typically only available outside of the plan.

In addition, whether a pension plan is a DB or DC has implications for whether a spouse is entitled to the pension's benefits. The Employee Retirement Income Security Act of 1974 (ERISA) requires that DB plans include a survivor's benefit, called a qualified joint and survivor annuity. Thus, after a worker with a DB plan dies, the surviving spouse continues to receive an annuity, but typically at a reduced level.[21] A qualified joint and survivor annuity may only be waived through a written spousal consent. Under most DC plans, the plan is written so that the employee

[18]The most common type of DC plans are 401(k) plans, which typically allow workers to choose to contribute a portion of their pretax compensation to the plan.

[19]The tax treatment differs depending on the type of IRA. For example, with traditional IRAs, workers who meet certain conditions can take an income tax deduction on some or all of the contributions they make to their IRA, but they must pay taxes on amounts they withdraw from the IRA. Workers below certain income limits may also contribute to Roth IRAs, which do not provide an income tax deduction on contributions, but permit tax-free withdrawals after a specified time period.

[20]Rolling funds over to an IRA allows participants to preserve the tax benefits enjoyed by the plan.

[21]The qualified joint and survivor annuity must provide at least a 50 percent benefit continuation to the surviving spouse.

may, during his or her lifetime, make withdrawals from the account or roll over the balance into an IRA without spousal consent, provided that the employee's vested account balance is payable in full on death to the surviving spouse.

National Trends Affecting Retirement Security for Men and Women

Over the past quarter-century, the percentage of private sector workers participating in employer-sponsored pension plans has held steady at about 50 percent. Although some workers choose not to participate in an employer-sponsored pension plan, the large majority of nonparticipating workers do not have access to one.[22] In addition, over the last 3 decades, the U.S. retirement system has undergone a major transition from one based primarily on DB plans to one based on DC plans, increasing workers' exposure to economic volatility and usually shifting the burden of saving to the individual worker, which makes them more reliant on their own decision making. As we have previously reported, from 1990 to 2008, the number of active participants in private sector DB plans fell by 28 percent, from about 26 million to about 19 million. Over the same period, the number of active participants in DC plans increased by 90 percent, from about 35 million to about 67 million.[23] DC plans generally do not offer annuities, so retirees are left with increasingly important decisions about managing their retirement savings to ensure they have income throughout retirement.[24] These decisions may be more difficult to make in times of economic volatility. For example, two recent recessions—one beginning in March 2001 and ending in November 2001 and the other beginning in December 2007 and ending in June 2009[25]—resulted in major stock indices falling dramatically. The long-term effects of financial market fluctuations on retirement income security are

[22]GAO, *Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges*, GAO-10-31 (Washington, D.C.: Oct. 23, 2009).

[23]GAO, *Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices*, GAO-11-400 (Washington, D.C.: June 7, 2011).

[24]DC participants can purchase annuities on the retail market. However, retail annuities are typically more expensive for women than for men because of women's longer life expectancy, whereas in-plan annuity options, when they are offered, must be at gender-neutral rates. In addition, in-plan rates may be lower than retail rates because the in-plan rate may be able to take advantage of a lower, institutional price. Nonetheless, research shows that most people choose not to annuitize DC savings.

[25]These recession periods were identified by the National Bureau of Economic Research Business Cycle Dating Committee.

uncertain, but the effects may vary based on factors such as age, type of pension plan, and employment status.[26] Employment status, in particular, can pose serious challenges for retirement security. As we recently reported, long-term unemployment can reduce an older worker's future monthly retirement income in numerous ways such as by reducing the number of years the worker can accumulate DB plan retirement benefits or DC plan savings, by motivating workers to claim Social Security at an earlier age, and by leading workers to draw down retirement savings to pay for expenses during unemployment.[27]

Working Women's Access to and Participation in Employer-Sponsored Pension Plans Have Improved Relative to Men

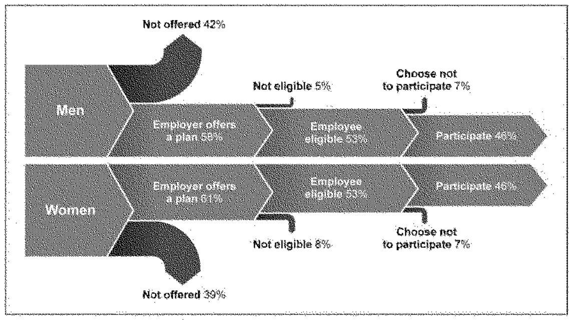
From 1998 to 2009, working women surpassed men in their likelihood of having an employer that offered a pension plan, but were slightly less likely to be eligible for and to participate in those plans.[28] However, this gap, narrowed over time. In fact, by 2009, the same proportion of working women and men ultimately participated in some type of plan (either a DB or a DC) as shown in figure 2. Nonetheless, women's contribution rates to DC plans remained lower than those of men.

[26] GAO, *Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits*, GAO-11-333 (Washington, D.C.: Mar. 30, 2011).

[27] See GAO, *Unemployed Older Workers: Many Experience Challenges Regaining Employment and Face Reduced Retirement Security*, GAO-12-445 (Washington, D.C.: Apr. 25, 2012).

[28] The statistics we present in this section are unadjusted point estimates computed from the SIPP data without taking into account differences between men and women in demographic and occupational characteristics. To adjust these point estimates by taking into account different factors that might explain gender differences in these three outcomes—working for an employer that offers a plan, plan eligibility, and participation—we also conducted multivariate analysis. The detailed results of these analyses are presented in appendix I.

Figure 2: In 2009, Working Women and Working Men Were Similar in Their Access to and Participation in Employer-Sponsored Pension Plans



Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that ara within +/- 1 percent of the estimate itself.

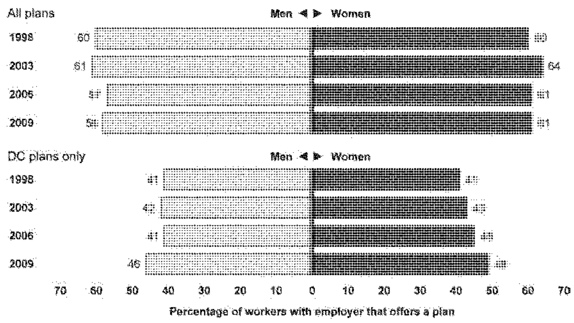
Women Surpassed Men in Their Likelihood of Working for an Employer That Offers a Pension Plan

While working men and women were just as likely to have employers that offered pension plans in 1998, by 2009, these women were more likely than men to work for employers that offered pension plans (see fig. 3). This may be due to the sectors and industries in which women worked. For example, a greater proportion of women than men worked in the public and nonprofit sectors—sectors that have higher proportions of workers with access to plans offered by employers—than the for-profit sector. Women were also more likely to work in the education and health industries—industries that have higher proportions of workers with access to plans offered by employers.[29] In contrast, men had higher rates of self-employment over this period, and self-employed individuals were much less likely to have retirement plans. In addition, from 1998 to 2009, the proportion of working women and men with employers that offered pension plans declined after 2003, possibly reflecting the decline in the

[29]For more information on women's and men's occupations and industries and other factors associated with working for an employer that offers a plan, see appendix I.

number of employers offering DB plans.[30] Furthermore, the proportion of women working for employers offering DC plans increased, rising from 41 to 49 percent (see fig. 3). With the exception of 1998, women were more likely to work for employers that offered DC plans than were men.

Figure 3: Proportion of Working Women and Men with Employers That Offered Any Type of Pension Plan and DC Plans Specifically



Source: GAO analysis of SIPP data.

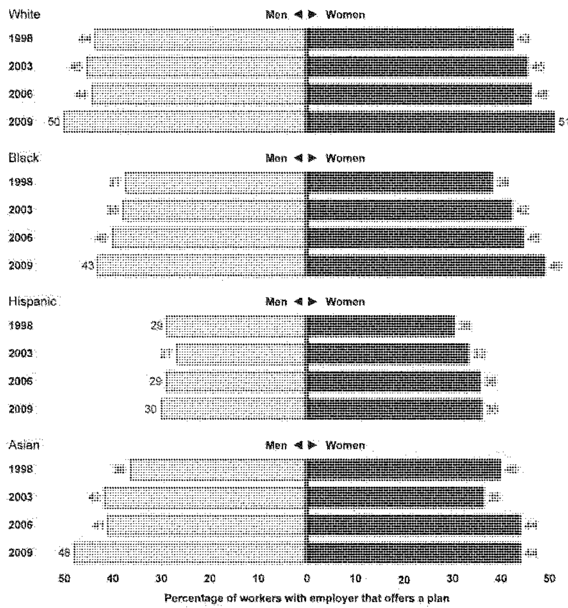
Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/- 1 percent of the estimate itself.

[30] In prior work, GAO reported that net new plan formation between 2003 and 2007 had been very small (about 1 percent) and that new plan formation was offset by plan terminations or mergers. In addition, 92 percent of newly-formed plans were DC plans and were generally small, with 96 percent having fewer than 100 participants. See GAO, *Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits,* GAO-11-333 (Washington, D.C.: Mar. 30, 2011). GAO also reported that plan sponsors voluntarily terminated over 61,000 sufficiently funded single-employer DB plans from 1990 to 2006 and that a number of large employers, representing a significant portion of participants in the DB pension system, had announced their intention to freeze one or more of their DB plans. See GAO, *Defined Benefit Pensions: Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges,* GAO-08-817 (Washington, D.C.: July 21, 2008).

Moreover, as shown in figure 4, while the proportion of working women with an employer that offered a DC plan increased through 2009—though not always steadily—it varied by racial and ethnic groups. White and Black women, for example, were the most likely to work for an employer that offered a plan, while Hispanic women were the least likely.[31] Interestingly, with only a few exceptions (i.e., Whites in 1998 and Asians in 2003 and 2009), the proportion of women working for an employer offering a plan was equal to or higher than that of men of the same race.

[31] Individuals in the White, Black, and Asian racial and ethnic categories are non-Hispanic.

Figure 4: The Proportion of Working Women and Working Men with Employers That Offered DC Pension Plans Varied, by Race



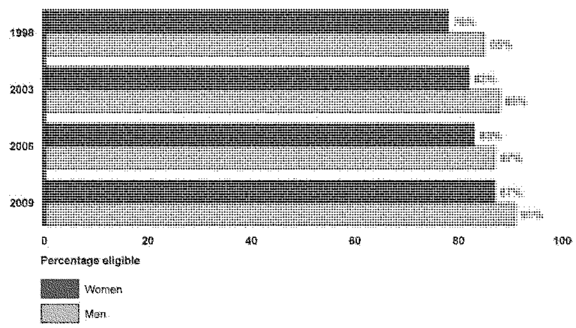
Source: GAO analysis of SIPP data.

Note: For Whites, percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percentage points or less of the estimate itself. For Blacks, Hispanics, and Asians, the 95 percent confidence intervals are within +/-3, 3 and 6 or fewer percentage points of the estimate itself respectively. For Asians, the variation by year may be due to their relatively small sample size.

Women Working for Employers Offering Plans Made Gains in Plan Eligibility

Among those working for an employer offering a pension, the vast majority of both women and men were eligible to participate in the plan, and their eligibility rates generally increased over time (see fig. 5). Moreover, women's eligibility rates increased more than men's, thereby narrowing the gap between men and women from 7 to 4 percentage points.

Figure 5: The Proportion of Working Women and Men Who Were Eligible for Their Employer's Pension Plans (among the Population Whose Employers Offered a Plan)



Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percent or less of the estimate itself.

Of the women who were not eligible to participate in their employer's pension plan in 2009, the majority reported that they were not eligible because they did not work enough hours, weeks, or months per year at their place of employment. Correspondingly, women that worked part-time were significantly less likely to be eligible for their employer's plan, according to our analysis.[32] In contrast, men most frequently cited insufficient tenure as the reason for ineligibility.

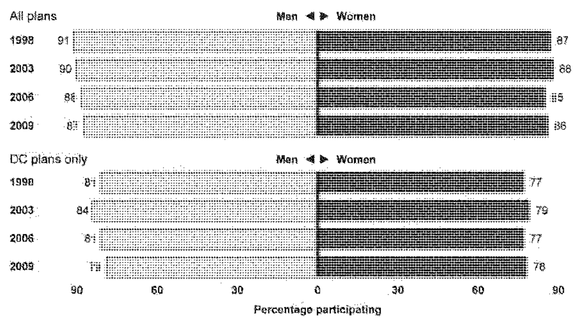
[32]For more information on other factors associated with employer-plan eligibility, see appendix I.

The Gender Gap in Plan Participation Narrowed

Among those eligible to participate in their employer's pension plan, women had lower rates of participation than men, but this gap diminished over time as men's participation rates declined. Specifically, the participation rate for women in any type of plan (DB or DC) declined slightly from 87 percent in 1998 to 86 percent in 2009, while the participation rate for men declined from 91 to 87 percent (see fig. 6).

Among those eligible for DC plans, women's participation rates increased by one percentage point over the years we analyzed, while men's declined by 2 percentage points. Taken together, the gender participation gap in DC take-up rates narrowed from 4 to 1 percentage points.

Figure 6: The Proportion of Eligible Women and Men That Participated in Any Type of Employer-Sponsored Pension Plan or in DC Plans (among the Population That Was Eligible for a Plan)

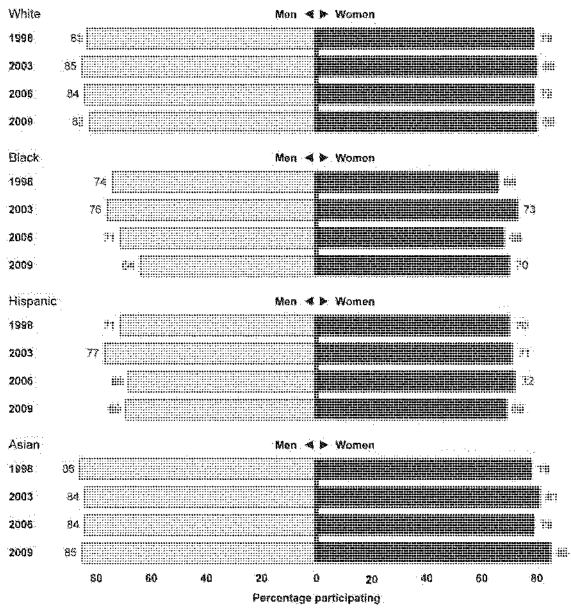


Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percent or less of the estimate itself.

Women's participation rates in DC plans also varied by race. As shown in figure 7, White and Asian women had the highest participation rates in DC plans, ranging from 79 and 78 percent respectively in 1998 to 80 and 85 percent in 2009. Black and Hispanic women had lower participation rates, but the rate for Black women increased over time from 66 to 70 percent. With some exceptions, across all racial and ethnic groups, eligible women tended to have lower participation rates than eligible men across all 4 years.

Figure 7: The Proportion of Working Women and Working Men (among Those Who Were Eligible) Who Participated in Their Employer's Defined Contribution Pension Plans, by Race



Source: GAO analysis of SIPP data.

Note: For Whites, percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percentage points or less of the estimate itself. For Blacks, Hispanics, and Asians, the 95 percent confidence intervals are within +/-5, +/-6, and +/-7 or fewer percentage points of the estimate respectively.

Several characteristics of women help to explain their lower participation rates in DC plans. For one, women had significantly lower levels of household income than men across all 4 years. Our analysis, coupled with studies conducted by outside experts, indicates that higher incomes are associated with higher rates of plan participation.[33] Further, despite women's increasing attachment to the labor force, they continue to be more likely than men to work part-time and to have less tenure—factors we and others have found to be associated with lower DC participation rates.[34] At the same time, a higher proportion of women are single-parents—a factor that we found to be negatively associated with plan participation. After accounting for these differences (and differences in other factors) between men and women, women did not have significantly lower participation rates than men in 2009.[35]

In addition to having lower rates of participation, women also contributed to their DC plans at lower levels than men. Among those reporting their contributions as shares of their salaries, women's contribution rates hovered around 6.7 percent of their salaries while men's contribution rates averaged around 7.2 percent over the years of our analysis.[36] Among those reporting their contributions in dollar amounts, women's annual contributions were consistently around 30 percent lower than men's over the study period.

[33]See Alicia H. Munnell, Annika Sundén, and Catherine Taylor, "What Determines 401(k) Participation and Contributions?" *Social Security Bulletin*, vol. 64, no. 3 (2001/2002). See appendix I for additional information on our modeling analyses.

[34]See Lois Shaw and Catherine Hill, *The Gender Gap in Pension Coverage: What Does the Future Hold?*, Institute for Women's Policy Research, IWPR Publication #E507 (May 15, 2001). Shaw and Hill find that hours worked per week and job tenure are positively related with participating in a pension plan.

[35]These results are consistent with those of outside researchers. For example, one study found that before controlling for differences between men and women in other factors that might affect participation, women had significantly lower participation rates than men. However, after controlling for differences between men and women, women were 6.5 percent more likely to participate in a DC plan. See Gur Huberman, Sheena S. Iyengar, and Wei Jiang, "Defined Contribution Pension Plans: Determinants of Participation and Contributions Rates," *Journal of Financial Services Research* (January 2007). For more information on other factors associated with employer-plan participation, see appendix I.

[36]These estimates of contribution levels are consistent with estimates (for both men and women combined) from other studies using recent SIPP data. See, for example, "Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2009" *Employee Benefit Research Institute Notes*, vol. 31, no.11 (November 2010): 2.

While Income Composition Changed Only Slightly for Women Age 65 and Over, They Continue to Have Less Retirement Income Than Men

The composition of women's and men's retirement income did not vary greatly over the last decade despite changes in the economy and pension system, largely because their main income sources—Social Security and DB plans—were shielded from fluctuations in the financial market. However, women, especially widows and those 80 years and over, depended on Social Security benefits for a larger percentage of their income than men. In contrast, women received a lower share of their income from earnings than men. Women age 65 and over also had less retirement income on average and higher rates of poverty than men in that age group. Specifically, for the population age 65 and over, women's median income was approximately 25 percent lower than men in the same age group for all years.[37] Moreover, women in this age group were nearly twice as likely to be living in poverty than men.

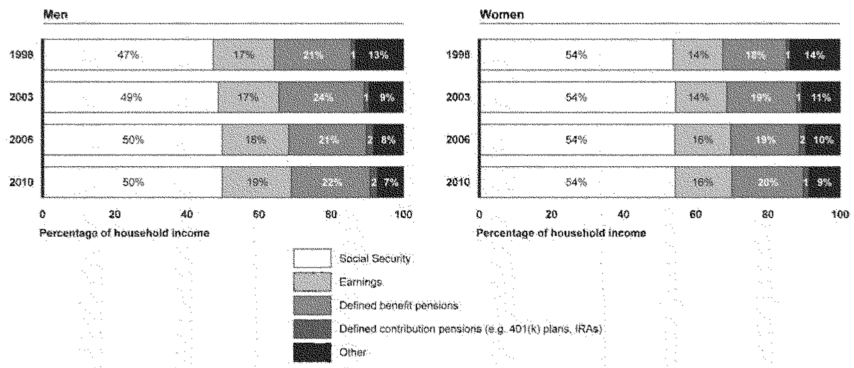
The Composition of Income for Women and Men Age 65 and Over Did Not Fluctuate Greatly Despite Changes in the Economy and Pension System

The composition of household income for women and men age 65 and over fluctuated only slightly from 1998 to 2010, despite changes in the economy and the pension system (see fig. 8). The composition of household income did not fluctuate drastically largely because Social Security and DB benefits comprised nearly three-quarters of household income for women and slightly less (around 70 percent) for men, providing them with guaranteed monthly income for life. Women tended to receive a higher proportion of household income from Social Security. In fact, in 2010, 16 percent of women age 65 and over depended solely on Social Security for income compared to 12 percent of men. At the same time, the share of income from earnings increased slightly for men and women, but was consistently lower for women than for men. Furthermore, the share of income from DC plans was very low (1 to 2 percent) across the entire period for both men and women. This is due to the fact that the lion's share of people age 65 and over did not report receiving any income from regular distributions from DC plans.[38]

[37] For the analysis in this section, we used SIPP data from 1998, 2003, 2006, and 2010. See appendix I for more details on the data and our analyses.

[38] This may be due to the fact that retirees tend to withdraw funds from DC accounts irregularly, instead of annuitizing. To the extent that nonregular (lump sum) distributions comprise a significant portion of income, our estimates of income shares from other sources, such as Social Security, might be overstated. However, because of the irregularity of these lump sum distributions, it is difficult to observe them with household survey data because surveys generally measure income only at a particular point in time.

Figure 8: The Composition of Household Income for Women and Men Age 65 and Over Did Not Fluctuate Greatly Over Time

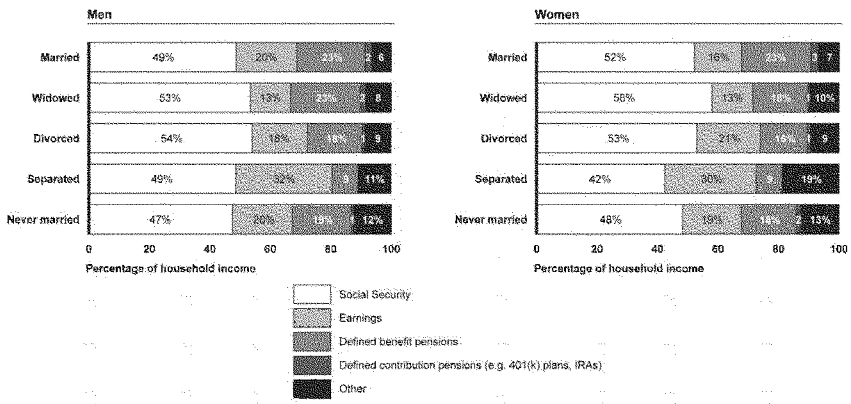


Source: GAO analysis of SIPP data.

Notes: Estimates for men and women include spousal income. The category for income from defined contribution pensions reflects total household distributions from IRAs, as well as 401(k) pension plans and similar defined contribution pension plans. Nonregular (lump sum) withdrawals from IRA and 401(k) plans are not included. The "other" category includes income from cash public assistance and property income including interest, dividends, rent and royalties. Percentages may not add to 100% due to rounding. Percentages are based on household incomes for each source including zero values. Percentage estimates of the income shares from Social Security, earnings, defined benefit pension, and defined contribution pensions have 95 percent confidence intervals that are within +/- 2.5 percent of the estimate itself. For information on how these percentages were estimated, see appendix I.

As shown in figures 9 to 11, in 2010, the composition of household income for individuals age 65 and over also varied by demographic group. Among marital-status categories, widowed women depended on Social Security benefits for a larger percentage of their income (58 percent) than other women (see fig. 9). In fact, about 21 percent of all widowed women depended on Social Security as their sole source of income. Separated women and men received higher shares of income from earnings, and married women and men received relatively higher shares of their income from DB plans.

Figure 9: Differences in the Composition of Household Income for Women and Men Age 65 and Over, by Marital Status, 2010

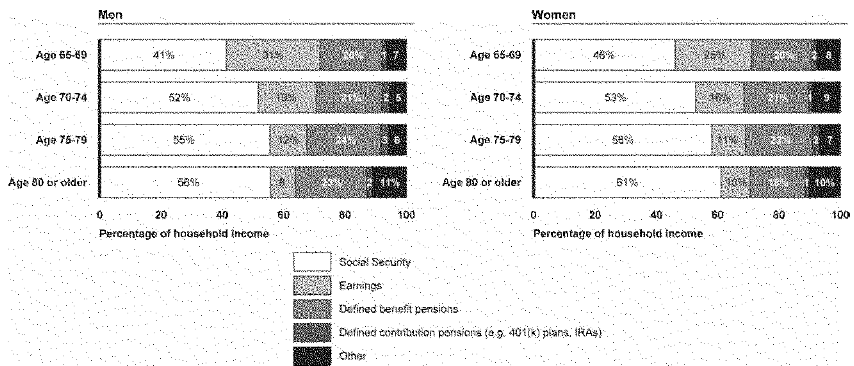


Source: GAO analysis of SIPP data.

Notes: In the category for married individuals, estimates for men and women include spousal income. The category for income from defined contribution pensions reflects total household distributions from IRAs, as well as 401(k) and similar defined contribution pension plans. Nonregular (lump sum) withdrawals are not included. The "other" category includes income cash public assistance and property income including interest, dividends, rent and royalties. Percentages may not add to 100% due to rounding. Percentage estimates of the income shares from Social Security have 95 percent confidence intervals that are within +/-2, +/-3, +/-4, +/-10 and +/-6 percent of the estimate itself for married, widowed, divorced, separated and never married individuals respectively. Percentage estimates of the income shares from earnings have 95 percent confidence intervals that are within +/-2, +/-2, +/-3, +/-11 and +/-6 percent of the estimate itself for married, widowed, divorced, separated and never married individuals respectively. Percentage estimates of the income shares from defined benefit plans have 95 percent confidence intervals that are within +/-2, +/-3, +/-3, +/-7 and +/-5 percent of the estimate itself for married, widowed, divorced, separated and never married individuals respectively. Percentage estimates of the income shares from defined contribution plans have 95 percent confidence intervals that are within +/- 2 percent of the estimate itself for all marital status categories.

As shown in figure 10, among different age groups, women age 80 and over received the highest share of their income from Social Security (61 percent). In fact, about 20 percent of them depended on Social Security for their sole source of income. Men in the youngest age category (65 to 69) received a higher share of their income from earnings (31 percent) relative to other groups, while individuals in the oldest age categories received the smallest share of income from earnings, likely reflecting the declining ability to work at older ages.

Figure 10: Differences in the Composition of Household Income for Women and Men Age 65 and Over, by Age Group, 2010



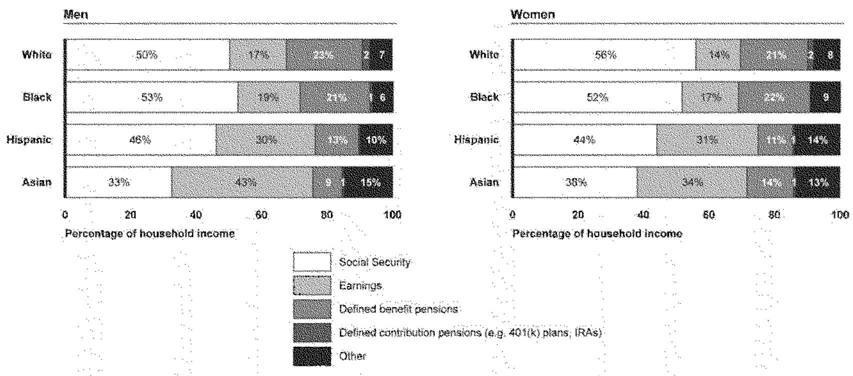
Source: GAO analysis of SIPP data.

Notes: Estimates for men and women include spousal income. The category for income from defined contribution pensions reflects total household distributions from IRAs, as well as 401(k) and similar defined contribution pension plans. Nonregular (lump sum) withdrawals are not included. The "other" category includes income from cash public assistance end property income including interest, dividends, rent and royalties. Percentages may not add to 100 percent due to rounding. Percentage estimates of the income shares from Social Security have 95 percent confidence intervals that are within +/-2, +/-4, +/-3, and +/-2 percent of the estimate itself for individuals in the 65-69, 70-74, 75-79, and 80+ age categories respectively. Percentage estimates of the income shares from earnings have 95 percent confidence intervals that are within +/-2 percent of the estimate itself for individuals in all age categories respectively. Percentage estimates of the income shares from defined benefit pension plans have 95 percent confidence intervals that are within +/-2, +/-2, +/-2, and +/-4 percent of the estimate itself for individuals in the 65-69, 70-74, 75-79, and 80+ age categories respectively. Percentage estimates of the income shares from defined contribution pension plans have 95 percent confidence intervals that are within +/-0.5, +/-3, +/-1, and +/-1 percent of the estimate itself for individuals in the 65-69, 70-74, 75-79, and 80+ age categories respectively.

Finally, among racial and ethnic groups, White and Black women and men age 65 and over received the highest share of income from Social Security (see fig. 11). In contrast, Asians and Hispanics tended to receive a lower share of their incomes from Social Security.[39] Asian men and women received a disproportionately higher share of income from earnings relative to other racial and ethnic categories. White and Black women and men received higher shares of income from DB plans, compared to Hispanics and Asians.

[39]In "Racial and Ethnic Differences in Women's Retirement Security," *Journal of Women, Politics & Policy*, 30 (2009): 141-171, Sunhwa Lee also notes that Social Security is the most common source of retirement income and that differences in immigrant status do not entirely account for the lower rates of Social Security receipt among Hispanics and Asians. Maya Rockeymoore and Meizhu Lui highlight that Hispanics are disproportionately represented in job categories that were previously excluded from the Social Security program, such as agricultural and household workers. They point out that, although these job categories are now covered, earnings in these categories might not be recorded accurately in Social Security tax payment records, which could lead to lower payments and therefore a lower share of income from Social Security. See Maya M. Rockeymoore and Meizhu Lui, *Plan for a New Future: The Impact of Social Security Reform on People of Color* (Washington, D.C.: Commission to Modernize Social Security, 2011).

Figure 11: Differences in the Composition of Household Income for Women and Men Age 65 and Over, by Race and Ethnicity, 2010



Source: GAO analysis of SIPP data.

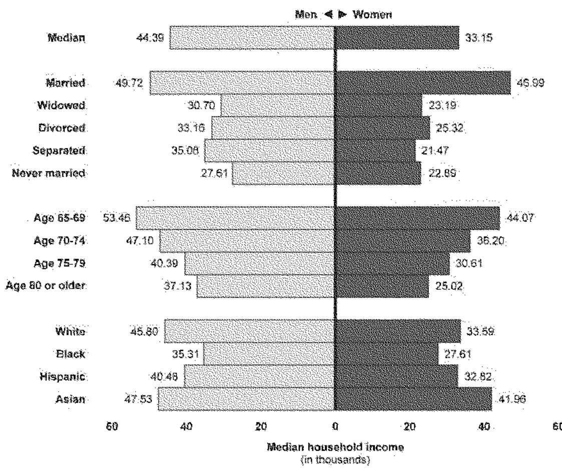
Notes: Estimates for men and women include spousal income. The category for income from defined contribution pensions reflects total household distributions from IRAs, as well as 401(k) and similar defined contribution pension plans. Nonregular (lump sum) withdrawals are not included. The "other" category includes income from cash public assistance and property income including interest, dividends, rent and royalties. Percentages may not add to 100 percent due to rounding. The size of the 95 percent confidence intervals for estimates presented in this figure varies by racial/ethnic category. Percentage estimates of the income shares from Social Security have 95 percent confidence intervals that are within +/-2, +/-4, +/-5, and +/-6 percent of the estimate itself for White, Black, Hispanic, and Asian individuals respectively. Percentage estimates of the income shares from earnings have 95 percent confidence intervals that are within +/-1, +/-3, +/-5, and +/-7 percent of the estimate itself for White, Black, Hispanic, and Asian individuals respectively. Percentage estimates of the income shares from defined benefit plans have 95 percent confidence intervals that are within +/-2, +/-3, +/-3, and +/-7 percent of the estimate itself for White, Black, Hispanic, and Asian individuals respectively. Percentage estimates of the income shares from defined contribution plans have 95 percent confidence intervals that are within +/-1 percent for all the racial and ethnic categories.

Median Household Income for Women Age 65 and Over Was 25 Percent Lower Than Men's

Women age 65 and over had consistently lower median incomes than men across age and most race groups over time.[40] Over the last decade, the median incomes of women age 65 and over were approximately 25 percent lower than their male counterparts. Median incomes, did, however, vary by demographic category (see fig. 12). Demographic groups with the lowest median incomes included women who were either unmarried—especially those who had been separated or never married—over the age-of 80, or Black or Hispanic.

[40]We used SIPP data to analyze household income among individuals 65 and over from 1998 to 2010.

Figure 12: Median Household Incomes in 2010 for Individuals 65 and Over by Age Group

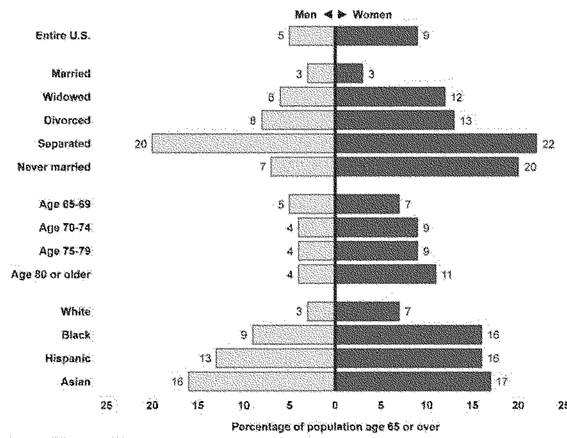


Source: GAO analysis of SIPP data.

Notes: Estimates for men and women include spousal income. Estimates of median incomes have 95 percent confidence intervals that are within +/-$900 for women and +/-$1,200 for men in the entire U.S., +/-$1,600 for married women, +/-$1,000 for widowed women, +/-$1,900 for divorced women, +/-$5,200 for separated women, +/-$4,000 for never married women, +/-$1,800 for married men, +/-$2,000 for widowed men, +/-$4,100 for divorced men, +/- $8,000 for separated men, +/-$3,500 for never married men, +/-$1,800 for women ages 65-69, +/-1,700 for woman age ages 70-74, +/-$2,100 for women ages 75-79, +/-$900 for women 80 and older, +/-$2,700 for men ages 65-69, +/-$2,300 for men ages 70-74 and 75-79, +/-$2,200 for men 80 and over, +/-$1,000 for White women, +/-$1,400 for Black women, +/- $4,300 for Hispanic women, +/-$5,000 for Asian women, +/-$1,400 for White men, +/-$2,900 for Black men, +/-$5,300 for Hispanic men, and +/-$7,100 for Asian men.

In addition, a greater proportion of women age 65 and over lived in households with incomes below the poverty line than men in the same age group. Consistent with their relatively lower median incomes, the demographic groups with the highest poverty rates were women who were not married, over the age of 80, or non-White (see fig. 13).[41] In contrast, married people and White men had the lowest poverty rates.

Figure 13: Poverty Rates by Demographic Categories in 2010 for Women and Men Age 65 and Over



Source: GAO analysis of SIPP data.

Note: Estimates for men and women include spousal income. Percentage estimates of poverty rates have 95 percent confidence intervals that are within +/-1 percent for the category for the entire U.S.; +/-1 percent for married, +/-2 percent for widowed, +/-3 percent for divorced, +/-12 percent for separated, and +/-6 percent for never married individuals; +/-2 percent for all age-categories; +/-1 percent for Whites, +/-4 percent for Blacks, +/-5 percent for Hispanics, and +/-8 percent for Asians.

[41] Lee (2009) and Rockeymoore, et al. (2011) find similar results regarding higher poverty rates among unmarried and non-White women.

Divorce, Widowhood, and Unemployment Had a Detrimental Effect on Older Women's Income Security

When women nearing or in retirement—women over age 50—became divorced, widowed or unemployed, the effects on their households' total assets and income were detrimental, according to our analysis (see table 1).[42] Further, divorce and widowhood had more pronounced effects for women than for men. These effects may be contributing to elderly women's higher poverty rates and lower levels of income compared to men's. We also found, not surprisingly, that a decline in health after age 50 had a negative effect on household assets and income.[43] Lastly, we also examined the effect of caring for elderly parents on income and assets, but we did not find statistically significant negative relationships. All of these effects may not be generalizable to younger cohorts as women's labor force participation and, correspondingly, their assets and income, have changed over the last several decades.[44]

[42]We estimated these effects using fixed-effects panel regressions. We used all available years of HRS data, from 1992 up through the early release data for 2010. Because the HRS tracks individuals over time, we were able to estimate the percent change in household assets and household income that occurs for an individual after a life event, relative to an individual that did not experience that life event, but also became older. In this way, we were able to isolate the effect of the life event from other factors. We analyzed the effect of each event individually. If a woman were to experience multiple events simultaneously, such as becoming divorced and unemployed, the effects on her household assets and income could be even larger. For more details on our methodology and results, including standard errors, see appendix I.

[43]For our analysis, we used a user-friendly longitudinal dataset created by RAND, a research organization. For total household assets, we used RAND's variable that includes all household assets except for secondary residences. For income, we used RAND's total household income variable. For more information on the RAND dataset, see appendix I.

[44]Respondents in our sample were born prior to 1954; the HRS grouped these individuals into five generational cohorts. In addition, these analyses did not adjust for the size of the household, but show the effect on total household income and assets for a person experiencing the event. When we adjusted our models for household size, we found smaller effects for divorce and widowhood, but these effects were still significant. See appendix I for more information.

Table 1: Estimated Effects of Life Events on Household Assets and Income by Gender

Percent change

	Total household assets		Total household income	
	Women	Men	Women	Men
Became divorced or separated	-41[a]	-39[a]	-41[a,b]	-23[a,b]
Became widowed	-32[a,b]	-27[a,b]	-37[a,b]	-22[a,b]
Became unemployed	-7[a]	-7[a]	-9[a]	-7[a]
Health declined	-8[a]	-10[a]	-4[a]	-3[a]
Helped parents financially	3[a]	3[a]	6[a]	7[a]
Helped parents with daily activities	1	1	2[a]	2[a]

Source: GAO analysis of HRS data.

Notes: We used fixed-effects regression models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. For more details on the models, see appendix I.

[a]Estimate is significantly different from zero.

[b]Difference between women and men is statistically significant.

Became Divorced or Separated after Age 50

As shown in figure 14, the effects of divorce or separation after age 50 had substantial, negative effects on women's total household assets and income. For both women and men, assets fell by about 40 percent with a divorce or separation.[45] The effects were less substantial for those living in households where at least one member was age 65 or over, but these women and men still lost about one-third of their total assets. The effects for income were more pronounced for women than for men. Women's income fell by 41 percent, nearly twice that of men's (23 percent). The effects were largest for women living in households where all members

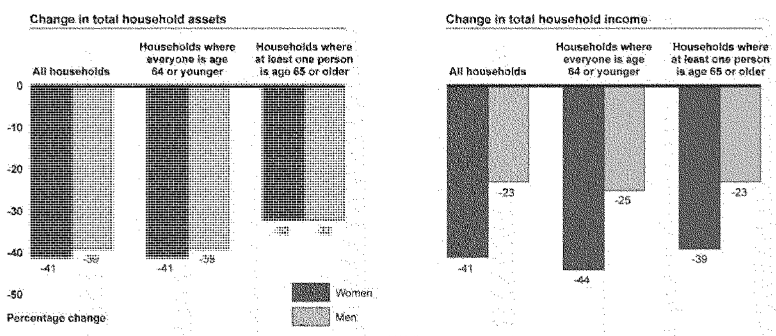
[45]Our estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event.

were age 64 or younger; for these women, income fell by 44 percent.[46] However, while divorce had very detrimental effects, we found that, for women ages 51 and over, divorce or separation was less prevalent than widowhood. Specifically, for those age 85 and over in our sample, 4 percent of women and 2 percent of men had been divorced or separated.[47]

[46]Researchers have hypothesized that the drop in assets is due to households saving their assets for a rainy day and are primarily drawn down at the time of precipitating shocks, such as divorce. See James M. Poterba, Steven F. Venti, and David A. Wise, *Family Status Transitions, Latent Health, and the Post-Retirement Evolution of Assets*, NBER Working Paper 15789, issued in February 2010. Also, Wilmoth and Koso hypothesize that the mechanisms that systematically allocate wealth when a marriage ends are more effective at maintaining wealth for those who are widowed compared to those who are divorced. They conclude that divorce should be more detrimental to long-term wealth accumulation than widowhood. See Janet Wilmoth and Gregor Koso, "Does Marital History Matter? Marital Status and Wealth Outcomes Among Preretirement Adults," *Journal of Marriage and Family*, vol. 64, no. 1 (2002).

[47]Further, some of these women and men could have been divorced prior to entering our sample.

Figure 14: Estimated Effects of Divorce and Separation on Total Household Assets and Income



Source: GAO analysis of HRS data.

Notes: All estimates in this figure have 95 percent confidence intervals within +/-8 percentage points of the estimate itself. For statistical comparisons of the estimates across different groups, see appendix I. We used fixed-effects regression models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. For more details on the models, see appendix I.

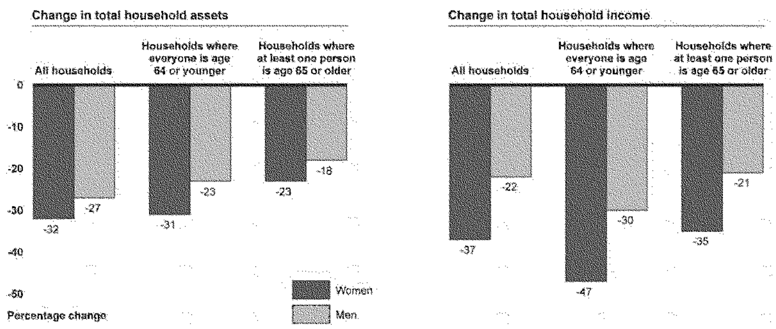
Became Widowed after Age 50

Not only did women's total household assets and income decline substantially with widowhood, but the effects were more pronounced for women than for men (see fig. 15). For example, while men's income fell 22 percent after widowerhood, women's income fell by an even greater amount—37 percent. The effects were larger for women living in younger households than women living in older households. Specifically, women in households where all members were age 64 or younger experienced a

31 percent decrease in assets and a 47 percent decrease in income.[48] Adding to these effects, widowhood was a much more common experience for women than men in our sample. In fact, women were at least twice as likely as men to become widowed between any two survey periods. Consequently, 70 percent of women age 85 and over were widowed compared to only 24 percent of men age 85 and over.

[48]A widow's assets may be depleted by medical and other expenses incurred prior to the death of her spouse. See Kathleen McGarry and Robert F. Schoeni, "Medicare Gaps and Widow Poverty," *Social Security Bulletin*, vol. 66, no. 1 (2005). In addition, women's income may fall after widowhood if their husbands did not elect to take the husband's pension benefits in the form of a joint and survivor benefit. See Karen C. Holden and Angela Fontes, "Economic Security in Retirement: How Changes in Employment and Marriage Have Altered Retirement-Related Economic Risks for Women," *Journal of Women, Politics & Policy*, vol. 30, no. 2-3 (2009).

Figure 15: Estimated Effects of Widowhood on Total Household Assets and Income



Source: GAO analysis of HRS data.

Notes: Because widows appear much more often in households where at least one person is over the age of 65 than in households where everyone is age 64 or younger, part of the overall effect is likely a comparison of the household's assets over time. This explains why the effect for the larger population is larger than the effect for each of the groups. Estimates for the "all households" and "households where at least one person is age 65 or older" categories have 95 percent confidence intervals within +/-5 percentage points of the estimate itself. Estimates for the "households where everyone is age 64 or younger" category have 95 percent confidence intervals within +/-10 percentage points of the estimate itself. For statistical comparisons of the estimates across different groups, see appendix I. We used fixed-effects regression models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. For more details on the models, see appendix I.

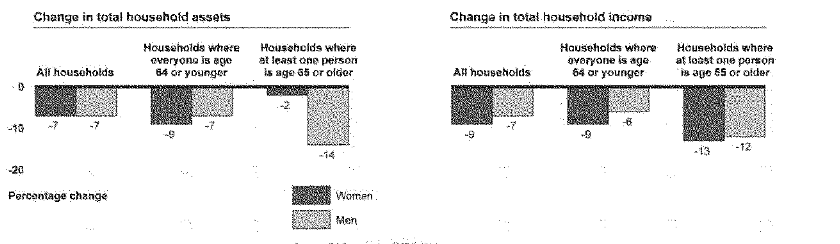
Became Unemployed after Age 50

Similar to becoming widowed, unemployment had negative effects on total household assets and income, although the effects were similar for women and men (see fig. 16).[49] Women and men saw their assets and income decline by about 7 to 9 percent. The effects on income were most acute for households where at least one member of the household was age 65 or over. For these households, men's assets fell by 14 percent

[49]We defined unemployment as being out of work and actively looking for a job.

and their income fell by 12 percent. For women, there was not a significant decline in assets but their income fell by 13 percent. In addition, older workers may have difficulty finding another job.[50] However, unemployment was not very prevalent in the HRS sample, in part because many survey respondents were retired.[51] On average, only 1 percent of men and women reported being out of work and actively looking for a job. For men and women ages 51 to 64, this percentage rose slightly to 2 percent.

Figure 16: Estimated Effects of Unemployment on Total Household Assets and Income



Source: GAO analysis of HRS data.

Notes: Estimates for the "all households" and "households where everyone is age 64 or younger" categories have 95 percent confidence intervals within +/-6 percentage points of the estimate itself. Estimates for the "households where at least one member is age 65 or older" category have 95 percent confidence intervals within +/-15 percentage points of the estimate itself. For statistical comparisons of the estimates across different groups, see appendix I. We used fixed-effects regression models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. For more details on the models, see appendix I.

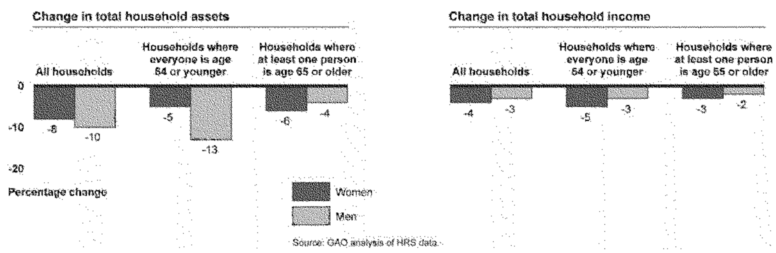
[50]We have previously reported that older workers generally have longer spells of unemployment than younger workers and that older workers report facing difficulties finding new jobs after being laid off. See GAO-12-445.

[51]When individuals enter the HRS sample, they are between the ages of 51 and 61. However, because this is a longitudinal study, all the survey members age over time. For example, someone who was age 61 at the time of the first HRS survey in 1992 was age 79 in 2010.

Health Declined after Age 50

As shown in figure 17, a decline in self-reported health status also had negative effects on total household income and assets, although to a lesser degree than widowhood, divorce, and unemployment. For all households in our sample, income fell by 4 percent for women and 3 percent for men when self-reported health status changed from excellent, very good or good to fair or poor.[52] The effects of a decline in health on assets varied by household type. The differences between women and men were the largest for younger households, where all members were age 64 or younger. For example, the loss of assets was greater for men (13 percent) compared to women (5 percent).[53]

Figure 17: Estimated Effects of a Decline in Health on Total Household Assets and Income



Source: GAO analysis of HRS data.

Notes: All estimates in this figure have 95 percent confidence intervals within +/-3 percentage points of the estimate itself. For statistical comparisons of the estimates across different groups, see appendix I. We used fixed-effects regression models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. For more details on the models, see appendix I.

[52]This difference between women and men is not statistically significant.

[53]Health care costs may deplete elderly individuals' resources. See McGarry and Schoeni (2005). Also see Richard W. Johnson, Gordon B.T. Mermin, and Cori E. Uccello, *When the Nest Egg Cracks: Financial Consequences of Health Problems, Marital Status Changes, and Job Layoffs at Older Ages* (Urban Institute: January 2006).

Although the effects of a decline in health were smaller than the effects of some of the other life events in our analysis, more individuals experienced this event than any other. Almost 30 percent of individuals ages 65 to 84 reported being in poor health (see table 2). For individuals ages 85 and over, 40 percent reported being in poor health. Interestingly, as shown in table 2, women and men suffered from poor health at similar rates across age categories. Further, we found that, between any two HRS surveys, about 2 percent of both women and men reported entering a period of poor health.

Table 2: Percent of Women and Men Reporting Their Health Is Poor Is Similar across Age Groups

Percent reporting their health is poor

	Women	Men
Ages 51-64	21	20
Ages 65-84	28	28
Ages 85 and over	40	40

Source: GAO analysis of HRS data.

Lastly, we found that providing elderly parents with financial assistance or helping parents with basic activities of daily living (i.e., bathing, dressing, and eating) had a slightly positive effect on household assets and income. However, often these effects were not significantly different from zero, possibly because of limitations in our data and methods.[54] In addition, we found that only a small percentage of the sample provided these types of assistance to their parents. Also, women and men age 51 through 64 were much more likely to provide assistance than women and men age 65 and over. But, as the baby boomers age, more children may be called upon to help their parents financially or with basic activities.

[54]Although the fixed-effects method offers several advantages over other regression methods, it also has limitations that may affect our estimates. For example, while the fixed-effects method controls for all characteristics within a household that do not change over time, it is possible that the relationship between providing care for parents and household assets changes over time and works in multiple directions. For example, if a household sees an increase in the value of its assets, it may decide to use some of this new wealth to finance care for elderly parents. However, using these assets causes total household assets to fall. The fixed-effects method cannot control for these simultaneous effects and, thus, the two effects may cancel each other out. For more information on our analysis of the effects of providing help to elderly parents and an analysis describing the individuals who provided care to parents, see appendix I.

Existing Policy Options Could Address Retirement Security Issues Facing Women

Through our interviews with experts and our literature review, we found that a range of existing policy options could help improve retirement income security for women.[55] Our analysis focuses on how women would be affected by these policy options. While each of these options would be available for both women and men, they could help address some of the specific challenges women face in ensuring a secure retirement. For example, some options would expand the use of existing tax incentives, encouraging women to save more. Another set of options would expand access to and strengthen spousal protections for retirement savings. These options could increase women's retirement savings and preserve their retirement income if they become divorced or widowed. Other sets of options could motivate women nearing retirement to work longer and save more, ensure lifetime retirement income, or enhance benefit adequacy. These options could help shield women from the effects of divorce, widowhood, and unemployment and decrease their risk of living in poverty.

All of the options have cost implications that would need to be considered prior to implementation. Moreover, as with federal spending programs, any option that results in reduced or deferred federal tax revenue may require an offset, such as raising revenue elsewhere or cutting spending. While the federal government could bear some of these costs, workers and plan sponsors could be responsible for others. Also, although some of the options could have positive effects on women on their own, there could be an offsetting effect. If the plan sponsor, for example, is responsible for the increased cost of sponsorship and makes changes to the plan to offset those increased costs, women may not ultimately benefit from the policy option. Lastly, some of these changes may require legislative changes.

[55] To identify and analyze policy options that could enhance women's retirement security, we conducted an extensive literature review and interviewed a range of experts. To ensure that we obtained a balanced perspective, we interviewed experts with a range of perspectives and from different types of organizations including government, academia, advocacy groups, and the private sector. For more information on our literature review and expert interviews, see appendix I. Some of the options have been proposed in various permutations. Our analysis is not intended to describe any one proposal. Rather, we describe the basic features of the option; these features may be common across proposals. GAO did not independently evaluate the efficacy of these options, nor by including them in this report are we providing a position on or endorsing any of these options.

Proposals to Expand the Use of Existing Tax Incentives to Save for Retirement

Some of the policy options we identified could expand the use of existing tax incentives for individuals to save for retirement during their working years (see table 3). These options could help lower- and moderate-income workers, as well as workers who take time out of the workforce to care for family members. Since women have lower earnings than men, on average, and are more likely to take time out of the workforce to care for family members, women may especially benefit from these options. However, pension experts are concerned that women may not be as financially literate as men, hindering them from taking full advantage of options for saving for retirement.[56]

Table 3: Proposals to Expand Use of Existing Tax Incentives to Save for Retirement

Policy option	Description of policy option	Potential effects on women
Automatic IRA	Employers who do not sponsor a pension plan would be required to automatically enroll employees in an IRA unless the employee opted out.[a] Automatic IRA proposals have been introduced before the four most recent Congresses.[b] However, this option would result in a loss of federal tax revenue.[c] Further, this kind of requirement could pose administrative burdens and costs for employers.	According to one study, lower- and moderate-income workers may be more likely to be eligible for automatic IRAs.[d] Women have lower incomes and retirement savings than men, but experts reported that automatic enrollment in IRAs could increase the number of women saving for retirement or increase their retirement savings. However, women from lower-income households may not be able to afford to make contributions to an IRA.
Expansion of Saver's Credit	The Saver's Credit—a tax credit for retirement savings for low- and middle-income workers—could be expanded in a number of ways. For example, some experts have called for making the credit refundable.[e] This option would result in a reduction in tax revenue.[f]	By enhancing the tax incentives to save for retirement, low- and middle-income workers may save more for retirement. However, women from lower-income households may choose not to take advantage of the credit because they may not be able to afford to contribute. Our previous work has shown that while the number of workers benefiting from an expansion of the Saver's Credit could be small, the increase in retirement savings could be sizable for those who do benefit.[g]

[56]We have previously reported that there is a need to improve individuals' financial literacy. Financial skills are increasingly important for ensuring a comfortable standard of living in retirement. GAO, *Financial Literacy: Enhancing the Effectiveness of the Federal Government's Role*, GAO-12-636T (Washington, D.C.: Apr. 26, 2012) and *Financial Literacy: Strengthening Partnerships in Challenging Times*, GAO-12-299SP (Washington, D.C.: Feb. 9, 2012).

Policy option	Description of policy option	Potential effects on women
Caregiver contributions to IRAs	Allow all caregivers to contribute to IRAs up to the qualified contribution limit, which would be based on the individual's adjusted gross income in the year prior to becoming a qualified caregiver. Currently, a married caregiver who has no compensation or whose compensation is less than her spouse, and who files a joint return, can contribute to an IRA by using her spouse's compensation in determining her maximum contributions to an IRA. If implemented, tax revenue could fall.	Women, who are more likely to take time out of the workforce to provide care for family members, could continue to save for retirement while providing care. However, women from lower-income households may not be able to afford to make contributions to an IRA while providing care to relatives.
Expand catch-up contributions	Currently, workers age 50 and over are permitted to make additional, annual "catch-up" tax-deferred contributions of up to $5,500 to their DC plans. Under this option, workers ages 40-49 would become eligible to make such contributions, and the contribution limits would be raised. Simultaneously, a campaign could be launched to promote the catch-up contribution option. By expanding tax incentives, however, more tax revenue could be deferred.	Women would be able to make larger contributions to DC plans for an additional decade, increasing their retirement savings. However, as we have previously reported, men are three times more likely than women to make catch-up contributions.[h] Because they have lower earnings than men, women may be constrained in their ability to save more. As a result, women may not choose to take advantage of extra years to make catch-up contributions.

Source: GAO analysis of literature and expert interviews.

[a]It has been proposed that certain types of firms, such as those with fewer than 10 employees, would be exempt from the automatic IRA requirement. Our prior work has analyzed the automatic IRA proposal. See GAO, *Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges*, GAO-10-31 (Washington, D.C.: Oct. 23, 2009) and *Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Many Low-Income Workers*, GAO-08-8 (Washington, D.C.: Nov. 29, 2007).

[b]See The Automatic IRA Act of 2012, H.R. 4049, 112th Cong. (2012) and the Automatic IRA Act of 2011, S. 1557, 112th Cong. (2011); the Automatic IRA Act of 2010, S. 3760 and H.R. 6099, 111th Cong. (2010); the Automatic IRA Act of 2007, S. 1141 and H.R. 2167, 110th Cong. (2007); and the Automatic IRA Act of 2006, S. 3952 and H.R. 6210, 109th Cong. (2006).

[c]Treasury has estimated that if automatic enrollment in IRAs and doubling an existing employer tax credit for starting an employer-sponsored pension plan were implemented by the end of calendar year 2013, then the revenue loss would be about $15 billion for fiscal years 2013-2022.

[d]Benjamin H. Harris and Ilana Fischer, *The Population of Workers Covered by the Auto IRA: Trends and Characteristics*, AARP Public Policy Institute (Washington, D.C.: Feb. 2012).

[e]Currently, the Saver's Credit is nonrefundable. A nonrefundable tax credit can reduce tax owed to zero, but it cannot be used to generate a refund payment to the filer in excess of taxes paid.

[f]The cost of expanding the Saver's Credit would depend on how the credit was expanded. For example, the President's fiscal year 2011 budget proposed expanding the Saver's Credit by making the credit refundable and providing a 50 percent match on retirement contributions of up to $1,000 for families earning $85,000 or less. The estimated cost of this expansion was $29.8 billion for fiscal years 2011–2020. See Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2011* (Washington, D.C., Feb. 1, 2010).

[g]See GAO, *Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits*, GAO-11-333 (Washington, D.C.: Mar. 30, 2011).

[h]See GAO-11-333.

Proposals to Expand Opportunities to Accumulate Social Security Credits

Experts also identified a set of policy options that would offer new opportunities to accumulate earnings credits for Social Security (see table 4). These options could enhance the retirement security of workers who experience a period of unemployment or who take time out of the workforce to care for family members. For example, counting unemployment insurance payments as creditable earnings under Social Security may be particularly helpful for women who become unemployed later in life and experience a notable decrease in their assets and income. However, because they would extend eligibility or increase benefits, these options would increase costs for Social Security and decrease solvency.

Table 4: Proposals to Expand Eligibility and Opportunities to Accumulate Social Security Credits

Policy option	Description of policy option	Potential effects on women
Count unemployment insurance payments as creditable earnings under Social Security	Currently, workers do not receive earnings credits for unemployment compensation. However, two experts told us some countries consider unemployment compensation as creditable earnings under their social security systems. This allows workers to continue accruing earnings credits while unemployed. This option could increase costs and would decrease Social Security solvency.	According to two of the experts we spoke with, women who experience bouts of unemployment would receive more earnings credits under Social Security, potentially increasing their benefits. This option may also help women become eligible for benefits.
Allow care-giving credits for Social Security benefit calculations	Under the current system, Social Security eligibility and benefit amounts depend on the amount of time a worker spends in covered employment. Under this option, workers who take time out of the workforce to provide care could have their Social Security benefits adjusted. For example, the benefits formula could impute earnings for years with zero or low earnings due to care-giving.[a] In addition, this option would increase Social Security costs and decrease solvency.	Crediting time spent providing care could increase women's Social Security benefits or make them eligible for benefits. Our past work has shown that more women than men could benefit from care-giving credits.[b] However, as we have previously reported, care-giving credits may not reach the target population. For example, low-income people are less likely to be able to take time off from work. Therefore, people who have relatively higher incomes may benefit more from the creation of care-giving credits.[c]

Source: GAO analysis of literature and expert interviews.

[a]SSA's Office of the Chief Actuary has estimated the effect of providing a care-giving credit to parents with a child under 6 for up to 5 years. In 2011, the Office of the Chief Actuary estimated these proposals would decrease solvency by 0.24 percent of payroll. See http://www.ssa.gov/oact/solvency/provisions/index.html.

[b]See GAO-08-105.

[c]See GAO-10-101R.

Proposals to Expand Access to Retirement Savings and Strengthen Spousal Protections

Other policy options could either expand access to retirement savings in DC plans and IRAs or strengthen spousal protections for retirement savings (see table 5). These options could address a variety of challenges women face, including their lower levels of income in retirement. In addition, they could preserve retirement income after a divorce or after becoming widowed. For example, requiring that a wife provides consent whenever a husband takes a distribution from his DC savings would protect the wife's access to household income in retirement. However, these options could increase costs for plan sponsors. For example, requiring notarized spousal consent whenever a husband takes a distribution could increase the administrative costs that must be paid by plan sponsors.

Table 5: Proposals to Expand Access to Retirement Savings and Strengthen Spousal Protections

Policy option	Description of policy option	Potential effects on women
Lower DC plan eligibility requirements	Currently, employees are generally eligible for DC plans once they have at least 1,000 hours of service during a 12-month period. One proposal would require employers to offer DC plans to employees that have at least 500 hours of service per year for 3 years. This option could, in turn, increase costs for plan sponsors. It would also result in increased deferral of tax revenue if more workers made contributions to DC plans because DC contributions are typically tax-deferred.	Women, who tend to move in and out of the workforce and/or work part-time, could become eligible to participate in DC plans. If they choose to participate, their retirement savings would increase. However, over 75 percent of women covered by a pension are eligible to participate, so the number of women affected by this option may be limited. Further, part-time workers have lower earnings than full-time workers and may not be able to make contributions to DC plans.
Lower DC plan vesting requirements	Currently, ERISA requires that employees become vested in DC plans in no more than 3 or 6 years, depending on whether the plan calls for graded or cliff vesting, respectively.[a] Experts have called for lowering these vesting requirements. For example, one proposal calls for lowering vesting requirements to 2 years for plans with cliff vesting and 3 years for plans with graded vesting. Such options, however, could increase costs for plan sponsors and result in an increased deferral of tax revenue.	Women, who tend to move in and out of the workforce and/or work part-time, would become more likely to vest more of their employer-sponsored pension plans, improving their access to pension benefits and retirement savings. In our 2008 report on women's retirement income security, we simulated lowering vesting requirements. We found that women in the lowest income quintile saw the largest change in benefits. Similarly, never married and divorced women saw a bigger increase in benefits than did married and widowed women.[b]
Provide spousal protection provisions for DC savings	Currently, spousal consent is not required when married individuals take distributions from their IRA or DC savings. Under tax-qualified DB plans, the spouse must provide consent in order to elect a DB benefit that is not a qualified joint and survivor annuity. One proposal calls for requiring spousal consent for any distribution from an IRA or DC plan other than a joint and survivor annuity. This option could increase costs for plan sponsors and would defer tax revenue if requiring spousal consent results in individuals delaying withdrawals.	Spousal protections for DB and DC plans would be similar. These changes would help to ensure that women were involved with decisions that would affect their retirement income and, in turn, would help improve the adequacy of their retirement income. However, officials and experts have noted that spouses often give consent to select a DB benefit other than a joint and survivor annuity, raising questions about the effectiveness of placing the same spousal consent requirements on DC plans.

Source: GAO analysis of literature and expert interviews.

[a]ERISA, as amended, governs vesting periods. Plans with cliff vesting have a specified point at which participants have a right to all benefits accrued to date and benefits accrued thereafter. Plans with graded vesting give participants a right to an increasing percentage of their total accrued benefit over time. For more information, see GAO, *Answers to Key Questions about Private Pension Plans*, GAO-02-745SP (Washington, D.C.: Sept. 18, 2002).

[b]See GAO-08-105.

Proposals to Expand Opportunities for Saving Later in Life and Delay Social Security Benefit Receipt

Experts identified three policy options that could motivate women nearing retirement to remain in the workforce and delay claiming Social Security benefits, thereby giving them more time to save for retirement and increasing their Social Security benefits (see table 6). Because women tend to have less income in retirement than men, and because elderly women face higher poverty rates than elderly men, these options for boosting retirement savings and benefits may improve women's overall retirement income security. For example, the full retirement age for Social Security could be increased, thus providing workers who are able to work with an incentive to keep doing so—potentially saving more for retirement in the process. However, each of these options has disadvantages. In the case of increasing the full retirement age, this option may not prove to be effective because women may not be able to work longer or may choose to exit the workforce before the full retirement age. They would, in turn, suffer reductions in Social Security income.

Table 6: Proposals to Expand Opportunities for Saving Later in Life and Delay Social Security Benefit Receipt

Policy option	Description of policy option	Potential effects on women
Education on benefits of waiting to start collecting Social Security benefits	According to experts, many people do not realize that waiting to claim Social Security benefits can significantly increase monthly benefit amounts for the rest of their lives. Better educational outreach could increase awareness. If workers delay claiming Social Security benefits, income and payroll tax revenues would be increased and solvency would be improved. Employer pension costs could be increased if workers continue participating in their pension plans.	A larger monthly income could help many women avoid poverty in retirement and better protect against outliving their retirement assets. On the other hand, women may not have the savings they need or be able to keep working to have enough income to delay claiming.
Increase the early or full retirement ages	Experts told us the Social Security early or full retirement ages could be increased. By increasing the Social Security retirement ages, workers may choose to work longer, resulting in additional payroll tax revenue, which would improve solvency.[a] However, employer pension costs could be increased if workers continue participating in their pension plans.	Some experts told us that these changes could encourage people to delay retirement, potentially increasing their retirement savings. Others are concerned that these options would be harmful for women. For example, if the full retirement age is increased and women who planned to claim at the old full retirement age do not delay collecting Social Security benefits, they would receive a lower benefit.
Increase duration of unemployment benefits in lieu of applying for Social Security early	According to one expert we spoke with, the eligibility period for unemployment compensation could be extended further for older workers. This could increase federal tax revenue because unemployment compensation is taxable. However, paying more in unemployment benefits would exacerbate the financial challenges state unemployment insurance programs face.[b]	Unemployment can have a negative effect on women's income security. This option would provide additional income to unemployed older women, who may find it difficult to find another job. Instead of applying for early Social Security benefits, which results in a permanently lower benefit level, women could rely on unemployment compensation, thus preserving the value of their Social Security benefits.

Source: GAO analysis of literature and expert interviews.

[a]SSA's Office of the Chief Actuary has estimated the effect various proposals to increase the full retirement age would have on solvency. In 2011, the Office of the Chief Actuary estimated these proposals would improve solvency by 0.32 to 0.98 percent of payroll. See http://www.ssa.gov/oact/solvency/provisions/index.html.

[b]In April 2010, we reported that state unemployment insurance trust funds stood in historically poor financial condition. See GAO, *Unemployment Insurance Trust Funds: Long-standing State Financing Policies Have Increased Risk of Insolvency*, GAO-10-440 (Washington, D.C.: Apr. 14, 2010).

Proposals to Ensure Lifetime Income

Experts also identified several policies that would ensure lifetime retirement income for women (see table 7). Women may especially benefit from these options, given that they (1) have lower levels of retirement income than men, (2) are more likely to live longer, and (3) are also more likely to become widowed. For example, Treasury recently proposed modifying the required minimum distribution rules so that individuals could use part of their retirement savings to purchase a longevity annuity.[57] This option would provide older women with guaranteed additional income, which may be helpful if they live long lives or outlive a spouse. These options, however, often have cost implications for either federal tax revenue or plan sponsors. For example, if individuals purchased longevity annuities using tax-qualified retirement savings, the tax revenue generated from withdrawing these savings would be deferred until the annuity started paying out.

[57]Certain provisions of the Internal Revenue Code set required minimum distributions from tax-deferred accounts, such as traditional IRAs and qualified plans, starting generally by April 1 in the year following the year in which the account holder reaches age 70 ½. These required minimum distributions help to ensure that account holders withdraw tax-deferred savings in retirement rather than accumulate savings for their estate.

Table 7: Proposals to Ensure Lifetime Income

Policy option	Description of policy option	Potential effects on women
Encourage DC plan sponsors to offer annuities as a distribution option for a portion or the entire DC account balance	Experts reported that steps could be taken to decrease the risks employers face when they offer an annuity as a distribution option for DC plans. For example, one expert told us the rules for using DC savings to purchase an annuity could be revised. These options could introduce greater costs and administrative burdens for plan sponsors.	More DC plan participants could have the opportunity to secure guaranteed lifetime income. This could be especially beneficial for women given that they tend to live longer than men, have higher poverty rates, and are more likely to be widowed.
Modify required minimum distribution rules to allow for longevity annuities	This option would modify the required minimum distribution rules so that it is easier to purchase longevity annuities with a portion of DC plan assets.[a] In February, Treasury proposed a regulation that would alter the required minimum distribution rules to make it easier for individuals to use a portion of their savings to purchase longevity annuities.[b] Tax revenue would be deferred until the annuity starts paying out.	A longevity annuity would decrease the chances that a woman would outlive her retirement savings. Given women's tendency to live longer than men, as well as their higher poverty rates and likelihood of being widowed, this option could be especially beneficial for improving women's retirement income security.
Reduce eligibility requirements for divorced spousal benefits under Social Security	Currently, a divorced spouse can receive benefits based on a retired worker's earnings record if the marriage lasted at least 10 years, and the spouse is unmarried and at least 62 years old. Experts have recommended expanding eligibility for divorce benefits to require a minimum of 7 years of marriage. Additionally, some experts have suggested marriage years could also be accumulated across multiple marriages. This option would increase Social Security costs and the administrative burden for SSA, while decreasing solvency.	More divorced women would qualify for spousal benefits. One study estimated that lowering the marriage-duration requirement from 10 to 7 years would increase benefits for about 8 percent of all divorced women age 62 and over in the year 2030.[c] However, as we have previously reported, this option could benefit higher-income women who are not economically vulnerable and it would not benefit women who were never married.[d]

Source: GAO analysis of literature and expert interviews.

[a]A longevity annuity (sometimes referred to as "longevity insurance" or a "deeply deferred annuity") is an income stream that can be purchased at or near retirement but begins at an advanced age—for example, age 85—and continues as long as the individual lives.

[b]Longevity Annuity Contracts, 77 Fed. Reg. 5443 (Feb. 3, 2012).

[c]Christopher R. Tamborini and Kevin Whitman, "Lowering Social Security's Duration-of-Marriage Requirement: Distributional Effects for Future Female Retirees," *Journal of Women and Aging* vol. 22 (2010).

[d]GAO, *Social Security: Options to Protect Benefits for Vulnerable Groups When Addressing Program Solvency*, GAO-10-101R (Washington, D.C.: Dec. 7, 2009).

Proposals to Ensure Income Adequacy

There are also a number of policy options that could enhance Social Security benefits for vulnerable groups at risk of not having sufficient income or assets in retirement, including widows, divorced women, low-income women and women age 85 and over (see table 8).[58] For example, increasing the Social Security Survivor's benefit to 75 percent of the deceased worker's benefit would provide widows with more monthly income, helping to keep some women out of poverty. However, all of these options would increase existing costs or introduce new costs and, in turn, would decrease the solvency of the system.

Table 8: Proposals to Ensure Income Adequacy

Policy option	Description of policy option	Potential effects on women
Use consumer price index for the elderly (CPI-E) to calculate Social Security cost-of-living adjustments	Currently, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is used to calculate annual cost-of-living adjustments for Social Security benefits. However, some experts argue that the CPI-W does not accurately reflect expenses for the elderly. The CPI-E, an index designed to represent expenses of those age 62 and over,[a] could be used to calculate cost-of-living adjustments for Social Security recipients. Experts say an advantage of the CPI-E is that it more accurately reflects the typically larger share of expenditures older Americans spend on medical care. This option would decrease Social Security solvency because it would generally increase benefit levels and, therefore, costs.[b]	Advocates for the CPI-E reported that it more accurately reflect expenses for retirees, thereby improving income adequacy by providing more appropriate cost-of-living adjustments. While all Social Security recipients would benefit, women could benefit more than men as they tend to live longer. Moreover, benefit increases compound over time. However, some advocates believe benefits would still be insufficient under the CPI-E.
Update the Social Security Special Minimum Benefit	Currently, Social Security includes a Special Primary Insurance Amount (also referred to as the Special Minimum Benefit) that is intended to reduce poverty among retired lifetime low-wage workers. However, very few people receive this benefit.[c] There are several options for increasing the minimum benefit. For example, one proposal would increase the minimum benefit and index it to wages.[d] While benefits would increase, decreasing poverty for some beneficiaries, this option would increase costs and decrease solvency.	An increased Special Minimum Benefit could keep more elderly women out of poverty by increasing their monthly income. In addition, our past work found that while the share of women affected by the minimum benefit was fairly similar across marital statuses (never-married, divorced, married and widowed), never-married and divorced women had much larger percent changes in median benefits.[e]
Provide an additional Social Security benefit to the oldest old	Social Security recipients over the age of 80 or 85 could receive an additional benefit, such as an extra 5 percent on top of their regular benefit. While this option would increase benefits for the oldest old, it would also increase costs and decrease solvency.[f]	Women, who tend to live longer than men, would be more likely to receive this extra benefit. Older women may need extra benefit as income and assets may have been used to care for a deceased spouse or to pay for increasing medical costs. An additional benefit may be particularly helpful for low-income women.

[58]Experts we spoke with also identified women without long-term care insurance as a vulnerable population. Although the lack of long-term care insurance does put women at risk of income insecurity, in general, we did not identify any long-term care policy options that addressed retirement income specifically.

Policy option	Description of policy option	Potential effects on women
Increase Social Security Survivor's benefits to 75%	Currently, when someone is widowed, total household income from Social Security decreases by one-third if the couple's benefits had been based on one spouse's work history and up to 50 percent if both spouses had been receiving retired worker benefits. Survivor's benefits could be increased to 75 percent of the couple's retired-workers benefits. Experts have proposed calculating this new benefit in different ways. For example, the surviving spouse could receive 75 percent of the couple's retired-workers benefit but the benefit would be capped at the maximum earner's benefit or at the benefit of the "lifelong average earner." However, increasing benefits would increase costs and decrease solvency.	Increasing Survivor's benefits would increase income for widowed women. Widowhood can have a devastating effect on women's household assets and income. Further, women are more likely than men to be widowed so they would be more likely to benefit from an increase in the survivor's benefit. In fact, when we simulated the effects of this option in 2007, we found that three times the number of women as men were affected. However, the magnitude of the benefit increase was larger for men than for women.[g]
Increase Social Security spousal benefits for divorced spouses	Currently, divorced spouses who qualify for spousal benefits receive a benefit equal up to 50 percent of the worker's benefits. This option would raise benefits for divorced spouses to 75 percent of the former spouse's benefit while the former spouse is still alive. Upon the death of the former spouse, the divorced spouse would receive the full widow's benefit of 100 percent. This benefit increase would decrease solvency because it would increase costs.	Divorce can result in a substantial loss of assets and income for women. Some experts argue that a 50 percent benefit is not enough to keep divorced women from falling into poverty. It has been estimated that increasing the benefit rate for divorced spouses to 75 percent would lower the poverty rate among divorced spouses from 30 percent to 11 percent.[h]
Increase Social Security benefits for disabled surviving spouses	Currently, to qualify for disabled surviving spouse benefits, disabled surviving spouses must be at least age 50 and have become disabled before or within 7 years of the spouse's death or before or within 7 years after last being eligible for benefits as a caretaking parent or eligible surviving child. In addition, disabled surviving spouses younger than the full retirement age generally receive lower benefits than those who wait to receive their benefits until the full retirement age. This option would raise benefits for disabled surviving spouses to 100 percent of the deceased spouse's benefit. It would also remove the 7 year limitation and the age 50 requirement. Lastly, it would make divorced spouses who are disabled eligible for benefits on the same basis as disabled surviving spouses. Although benefits would increase, Social Security solvency would decrease.	Both divorce and widowhood can result in a decrease in retirement security. Further, disabled surviving spouses, including those who have been divorced, cannot work and may have no partner to depend on for support. In addition, disability issues affect a surprisingly high number of divorced spouses, making them more vulnerable to income insecurity. One study estimated that more than one-fifth of all divorced spouses had health problems that meet disability criteria established by SSA.[i]
Increase continuation percentage for qualified joint-and-survivor annuities	Currently, if a worker receives a joint and survivor annuity, when the worker passes away, the spouse continues to receive the annuity, but at not less than 50 percent of the amount the worker received. This option would increase the minimum continuation percentage to 66 or 75 percent.	It is about 40 percent more expensive to live as a single retiree than as a married retiree. After becoming widowed, household annuity income would be reduced by a smaller amount than it is currently. However, by increasing the continuation percentage, the cost of the joint-and-survivor annuity could increase.

Source: GAO analysis of literature and expert interviews.

[a]The CPI-E is an experimental index developed by the Bureau of Labor Statistics. It takes into account increased utilization of medical care by the elderly. Officials from the Bureau of Labor Statistics have cautioned against using the CPI-E for pension and other adjustments because it is only an approximation of an index for older Americans. See GAO, *Income Security: Older Adults and the 2007-2009 Recession*. GAO-12-76 (Washington, D.C.: Oct. 17, 2011).

[b]SSA's Office of the Chief Actuary has estimated the effect of using the CPI-E to calculate cost-of-living-adjustments would have on solvency. In 2011, the Office of the Chief Actuary estimated that solvency would be decreased by 0.35 percent of payroll. See http://www.ssa.gov/oact/solvency/provisions/index.html.

[c]Currently, few people qualify for the special minimum benefit because the eligibility threshold has not kept pace with wage growth.

[d]SSA's Office of the Chief Actuary has estimated the effects various proposals to increase the Special Minimum Benefit would have on solvency. In 2011, the Office of the Chief Actuary estimated these proposals would decrease solvency by 0.10 to 0.28 percent of payroll. For these estimates, see http://www.ssa.gov/oact/solvency/provisions/index.html.

[e]See GAO-08-105.

[f]SSA's Office of the Chief Actuary has estimated the effects various proposals to increase benefits for those age 85 and over would have on solvency. In 2011, the Office of the Chief Actuary estimated these proposals would decrease solvency by 0.10 to 0.13 percent of payroll. For these estimates, see http://www.ssa.gov/oact/solvency/provisions/index.html.

[g]See GAO-08-105.

[h]Alison M. Shelton and Dawn Nuschler, *Social Security: Revisiting Benefits for Spouses and Survivors*, Congressional Research Service (Washington, D.C.: Nov. 5, 2010).

[i]David A. Weaver, "The Economic Well-Being of Social Security Beneficiaries, with an Emphasis on Divorced Beneficiaries," *Social Security Bulletin*, vol. 60, no. 4 (1997).

Concluding Observations

To retirement security experts, our findings paint a familiar if disconcerting picture. Although increases in women's labor force and retirement plan participation have led to a marginal improvement in women's prospects for achieving a more secure retirement, our report also highlights the substantial risks women continue to face in accumulating adequate retirement income. Yet, despite the differential risks women face, retirement security in America continues to be a national dilemma that transcends gender differences. It is important to note that much of the relative improvement in women's retirement security has been a consequence of deterioration in men's retirement security. Recent economic volatility, coupled with the continued shift toward defined contribution plans, exposes all workers to more financial risk than previous generations. Further, older workers' financial security is increasingly dependent on individual choices regarding how much to save, how to invest those savings, at what age to retire, and how to make those savings last throughout retirement. Much of the total workforce continues to approach retirement age with no traditional pension. Unchecked, this problem will only grow in severity.

Nevertheless, women face a unique set of circumstances, which warrant special attention. In particular, our findings show that the disruptions that occur as a result of later-in-life events, such as divorce and widowhood, can be financially devastating for women. In addition, women's greater likelihood of being single, higher life expectancy, and lower average earnings continue to make saving for retirement and avoiding late-life poverty a challenge.

The challenges facing women's retirement income security do not lack for potential resolutions. In fact, our discussions with experts identified a number of policy options that would improve retirement income security for women. These options range from changes to Social Security to altering the private pension system. While these options involve tradeoffs and difficult choices, they have the potential to improve the retirement income security of men as well. Ultimately, such efforts provide opportunities to improve the retirement security of many Americans.

Agency Comments

We provided a draft of this report to the Department of Labor, the Department of the Treasury, and the Social Security Administration for review and comment. While none of the agencies provided official comments, each provided technical comments, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution until 30 days after the date of this letter. At that time, we will send copies of this report to the Secretary of Labor, the Secretary of the Treasury, the Commissioner of Social Security, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or jeszeckc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this report are listed in appendix II.

Sincerely yours,

Charles Jeszeck

Charles A. Jeszeck
Director
Education, Workforce,
and Income Security

Appendix I: Objective, Scope, and Methods

To analyze factors that affect women's retirement security, we examined (1) how women's access to and participation in employer-sponsored retirement plans compare to men's and how they have changed over time; (2) how women's retirement income compares to men's and how the composition of their income has changed with economic conditions and trends in pension design; (3) how events occurring later in life affect women's retirement income; and (4) what policy options are available to help increase women's retirement income security. This appendix provides a detailed account of the information and methods we used to answer these questions. Section 1 describes the key information sources we used. Sections 2 through 4 describe the empirical methods we used to answer questions 1 through 3 respectively and the results of supplementary analyses.

Section 1: Information Sources

To answer our questions, we obtained information from a variety of sources including two nationally representative surveys—the Survey of Income and Program Participation (SIPP) and the Health and Retirement Study (HRS)—the academic literature on retirement security, and a range of experts in the area of women's retirement security. Table 9 summarizes the data sources used to answer each question. This section provides a description of our data sources and the steps we took to ensure their reliability.

Table 9: Data Sources Used for Each Reporting Objective

	SIPP data	HRS data	Academic literature	Expert opinions[a]
Objective 1: Women and men's access to employer-sponsored pension plans	X		X	X
Objective 2: Women's and men's retirement income sources	X		X	X
Objective 3: Impact of late-in-life events on retirement income and assets		X	X	X
Objective 4: Policy options			X	X

Source: GAO.

[a]Expert opinions were gathered from the literature and our interviews. We interviewed experts from government, academia, advocacy groups, and the private sector. For more information about our literature review and expert interviews, see below.

Survey of Income and Program Participation

To answer Questions 1 and 2, we analyzed data collected through the SIPP, a nationally representative survey conducted by the U.S. Census Bureau that collects detailed information on income sources and pension plan coverage, among many other areas. The survey is conducted in a series of national panels, with sample sizes ranging from approximately 14,000 to 36,700 interviewed households. The duration of each panel ranges from 2 ½ years to 4 years. Within each panel, the data are collected in a series of "waves" which take place in 4-month cycles. Within each wave, Census administers a core survey consisting of questions that are asked at every interview, and several modules relating to a particular topic. We used data from the core survey and the topical module on retirement and pension coverage from the last four SIPP panels, which began in 1996, 2001, 2004, and 2008 respectively. For all but the 2008 panel, the topical module on retirement and pension coverage was administered in Wave 7. For objective 1, we matched core data from Wave 3 of the 2008 panel with the topical module data, which was also administered in Wave 3. This ensured that the demographic data used in the analysis for that objective would match the time frame of the topical module data. However, to obtain the most up to date income data for objective 2, we used core data from Wave 7, which was the most recently available data as of October 2011. Table 10 shows the waves and questionnaires we used to answer each objective. It also shows the years that the data were collected during each panel and wave listed. The bolded years correspond to the years of data that are presented in the figures in objectives 1 and 2.

Table 10: SIPP Panels, Waves, and Questionnaires Used to Answer Objective 1 and Objective 2

	Year data were collected	Objective 1	Objective 2
1996 Panel, Wave 7, Core questionnaire	1997, 1998[a]	X	X
1996 Panel, Wave 7, Topical Module on Retirement and Pension Plan Coverage	1997,1998[a]	X	
2001 Panel, Wave 7, Core questionnaire	2002, 2003[a]	X	X
2001 Panel, Wave 7, Topical Module on Retirement and Pension Plan Coverage	2002, 2003[a]	X	
2004 Panel, Wave 7, Core questionnaire	2005, 2006[a]	X	X

	Year data were collected	Objective 1	Objective 2
2004 Panel, Wave 7, Topical Module on Retirement and Pension Plan Coverage	2005, 2006[a]	X	
2008 Panel, Wave 3, Core questionnaire	2009	X	X
2008 Panel, Wave 3, Topical Module on Retirement and Pension Plan Coverage	2009	X	
2008 Panel, Wave 7, Core questionnaire	2010		X

Source: GAO.

[a]In this report, the data are described by referring to the year from which the majority of the data was collected. For example, the 2001 Wave 7 data is described as "2003 data" because the reference periods for 10 of the 16 rotation groups in this wave were in calendar year 2003.

In comparison to other nationally representative surveys, the SIPP had several main advantages. First, the SIPP collects separate information on defined benefit (DB) and defined contribution (DC) plans. Other surveys, such as the Current Population Survey, do not distinguish between income from and participation in DB and DC plans. Second, the SIPP sample is larger than comparable surveys, such as the Survey of Consumer Finances (SCF). Consequently, it is possible to produce point estimates for demographic subcategories with a higher degree of reliability. Further, in comparison to the SCF, which oversamples wealthy households, the SIPP oversamples lower-income households—arguably an important component of an analysis of income security.

Despite its advantages, the SIPP has two limitations for our analysis. First, as with most survey data, SIPP data are self-reported. This can be problematic for the reporting of data on income sources and pension plan participation. For example, respondents might incorrectly report that they participate in a pension plan when they do not participate in one.[1] Second, despite the fact that SIPP differentiates between participation in

[1]For more information regarding such misreporting, see Irena Dushi, Howard M. Iams, and Jules Lichtenstein, "Assessment of Retirement Plan Coverage by Firm Size, Using W-2 Tax Records," *Social Security Bulletin*, vol. 71, no. 2 (2011).

a DB or DC plan, it does not contain full information on whether an individual's employer offers a DB plan.[2]

Health and Retirement Study

To answer question 3—on the effects of events occurring later in life on women's retirement income security—we analyzed data collected through the HRS, a nationally representative survey primarily sponsored by the National Institute of Aging and conducted by the Institute for Social Research at the University of Michigan. This longitudinal survey collects data on individuals over age 50 and contains detailed information on health, marital status, assets, income, and care for elders. Respondents were first surveyed in 1992, when they were age 51 to 61 and continued to be surveyed every 2 years. Additional cohorts were added in later years to maintain the representation of the older population. Table 11 presents the cohorts that are included in the HRS sample. Respondents are resurveyed every 2 years. The data in our analysis span from the initial 1992 survey through the early release data for 2010, the most current data available. Our analysis follows over 30,000 individuals from the HRS sample.

Table 11: Birth Years for the HRS Cohorts and the Year Data Collection Began for Each Cohort

Cohort	Birth years	Year data collection began
AHEAD[a]	1923 and earlier	1993
Children of the Depression Era (CODA)[a]	1924-1930	1998
Original HRS cohort	1931-1941	1992
War Babies[a]	1942-1947	1998
Early Baby Boomers	1948-1953	2004

Source: RAND HRS Data Documentation, Version L.

[a]The Asset and Health Dynamics of the Oldest Old (AHEAD) survey began collecting data in 1993. Originally, the HRS and AHEAD were separate but related surveys. The AHEAD survey was initially funded as a supplement to the HRS. In 1998, the two surveys merged and the CODA and War Babies cohorts were added to the survey.

[2]The survey contains catch-all questions for whether an individual's employer offers a DC plan, but it does not contain similar questions for DB plans. Specifically, those who are not included in their employer's plan are not asked whether their employer offers a DB plan.

One of the main advantages of the HRS is that the same households are interviewed at different points of time, allowing us to examine the correlation of changes in life events to changes in household assets and income. Further, RAND, a research organization, cleans and processes the HRS data to create a user-friendly longitudinal dataset that has consistent and intuitive naming conventions, model-based imputations for missing wealth and income data, and spousal counterparts of most individual-level variables. We used these data for our analysis.

However, there are three limitations for our analysis. First, the women currently in the HRS survey may have very different retirement experiences from women in the workforce today due to changes in demographic trends and workforce participation. Second, as with the SIPP, data from the HRS are self-reported. Third, total household assets cannot be broken out at the individual level.

Data Reliability

For each of the datasets described above, we conducted a data reliability assessment of selected variables by conducting electronic data tests for completeness and accuracy, reviewing documentation on the dataset, or interviewing knowledgeable officials about how the data are collected and maintained and their appropriate uses. When we learned that particular fields were not sufficiently reliable, we did not use them in our analysis. For example, we chose not to use data from the SIPP Topical Module on Annual Income and Retirement Accounts because many of the fields in that survey are not edited by the Census Bureau. For the purposes of our analysis, we found the variables that we ultimately reported on to be sufficiently reliable.

Literature Review and Interviews

To gain an understanding of the challenges women face in attaining a secure retirement and policy options that could enhance women's retirement security, we conducted an extensive literature review and interviewed a range of experts. To identify existing studies, we conducted searches of various databases, such as EconLit, Electronic Collections Online, ProQuest, Academic OneFile, WorldCat, and Policy File. From these sources, we identified 128 articles that appeared in journals since 2007 and were relevant to our research objective on policy options that could enhance women's retirement security. From the articles identified in the preliminary search, we reviewed article abstracts, when available, to determine which articles contained information germane to our report and reviewed those articles. In addition, we reviewed articles that were collected during the previous GAO study on women's retirement security that contained information relevant to our empirical analyses, described below, and reviewed articles that were suggested to us by the experts we interviewed. We performed these searches and identified articles from May 2011 to October 2011.

To supplement the literature review, we conducted interviews with experts. To ensure that we obtained a balanced perspective, we interviewed experts with a range of perspectives and from different types of organizations including government, academia, advocacy groups, and the private sector. We also consulted several experts in government and academia on technical issues related to our analysis. Specifically, we interviewed agency officials at the departments of the Treasury and Labor, the Social Security Administration, and the Bureau of the Census; academic experts at the Employee Benefits Research Institute, Heritage Foundation, University of Pennsylvania, Stanford University, Urban Institute, and Wellesley College; and industry experts and advocates from the American Council on Life Insurers, Anna Rappaport Consulting, Financial Engines, the Institute for Women's Policy Research, the National Women's Law Center, AARP, the Pension Rights Center, the National Academy of Social Insurance, Social Security Works, and the Women's Institute for a Secure Retirement.

Section 2: Methods for Comparing Working Women's and Men's Access to and Participation in Employer-Sponsored Pension Plans

To determine the proportion of men and women that (1) work for an employer that offers a plan, (2) are eligible for a plan, and (3) participate in a plan, we used data from the SIPP topical module on retirement and pension plan coverage. Specifically, we constructed five dummy variables using a combination of various questions in the SIPP. Table 12 shows the information we used to construct each variable. For each of these variables, we used SIPP individual-level weights to compute point estimates and, in conjunction with other factors, calculate the standard errors of those estimates so that we could accurately account for the complex survey design. We consulted statisticians from the U.S. Bureau of the Census on the appropriate use of these weights.

Table 12: Information Used from SIPP to Construct Key Variables

Variable	Constructed with:
Worker has employer that offers either a DB or a DC pension plan to some employees	A combination of two questions. One question asks whether the individual's job or business has any kind of pension or retirement plan for anyone in the company or organization, and a subsequent clarifying question asks if the individual's job or business offers a DC plan.
Worker has employer that offers a DC pension plan to some employees	A combination of questions. If the respondent replied yes to the question listed above, a follow-up question is asked about whether the respondent participates in the plan, and if so, the type of plan. This series of questions enables us to identify, among those who participate, whether the individual's employer offers a DC plan. For those that said that their employer does not offer a pension or retirement plan, and those who said that their employer offers a plan but it does not include a DC-type component, SIPP asks a follow-up question about whether the employer offers a DC-type plan. By combining these two sets of information, we were able to construct a dummy variable to indicate whether the individual's employer offers a DC plan.
Worker is eligible for employer-sponsored plan	A question in the SIPP topical module on retirement and pension plan coverage that asks the reason for not participating in the employer's plan. We defined individuals as not eligible if they listed one of the following reasons for not participating: no one in their type of job is eligible; they don't work enough hours, days, weeks or months; they don't have enough tenure in the job; they are too young; they started their job too close to retirement. We defined individuals as eligible if they participated in the plan or listed some other reason for not participating.
Worker participates in employer-sponsored DB or DC plan	A combination of two questions. One question asks whether the individual participates in the employer-sponsored plan, and a subsequent clarifying question asks if the individual participates in an employer-sponsored DC plan.
Worker participates in employer-sponsored DC plan	A combination of questions. If the respondent replied yes to the question above and the respondent indicates that the type of plan in which he or she participated was a DC plan.

Source: GAO analysis of SIPP questionnaire.

To better understand the factors that might explain gender differences in each of these variables, we developed a series of empirical models. Following the literature, we controlled for the following factors in our models: (1) demographic characteristics including gender, age, marital status, children present in the household, single parenthood, race and ethnicity, citizenship, immigrant status, and education level; and (2) occupational characteristics including part-time employment status, self-employment status, years of tenure, work experience, occupation, industry, sector, union status, and size of employing firm.[3] To estimate these models, we used logistic regression—an appropriate technique when the dependent variable is binary, or has two categories such as participating in a plan or not participating in a plan. Logistic regression also allows for the coefficients to be converted into odds ratios, which are described below.

We conducted the modeling analyses in a series of steps whereby with each step, the sample of men and women that was included in the analysis was conditional on the previous step. Specifically, the first analysis involved analyzing the probability of working for an employer that offered a pension plan for all workers in the sample. The second analysis involved analyzing the probability of being eligible for a plan for those men and women that worked for an employer offering a plan. The third analysis involved analyzing the probability of participating in a plan for those that were eligible for their employer-sponsored plan.

Changes in the Working Population Over Time by Gender

In conjunction with understanding the factors associated with each dependent variable in our models, it is essential to also understand how women and men differ in those factors. Taken together, the information from the model and information from a comparison of men's and women's characteristics enables us to understand what factors make women more or less likely to be employed by an employer that offers a plan, be eligible for the plan, and participate in the plan. For example, if we know that women are disproportionately more likely to work part-time and that part-time status is an important factor associated with plan participation, we can infer that women's higher rates of part-time status might contribute to their lower rates of plan participation. Table 13 compares the characteristics of men and women for each of the factors that we control for, across each year of the study period.

[3]Note that in the models we present, we did not include income as a control variable. Income can be considered to be endogenously (or simultaneously) determined with an individual's decision to work for a particular employer that might be offering a plan and therefore have the potential to bias the model estimates. For example, one might deliberately choose to work in a lower-paid government position to ensure access to a DB plan. We did run versions of our model with income included as a control and found that it was significantly associated with the likelihood of working for an employer that offers a plan and of participating in a plan.

Generally, the characteristics of men and women in the working population did not change dramatically over the study period. Correspondingly, when we compare men and women in each year, several relationships between them were consistent across all of the study years. In terms of demographic characteristics, women were more likely than men to be widowed and divorced. Women were also more likely to have children present in the household, be single parents, and work part time. A higher proportion of men than women were Hispanic, and this proportion increased over the study period.[4]

In terms of occupational characteristics, several gender differences persisted across the study years. Women consistently had higher levels of education and were more likely to work in the public or nonprofit sectors. Men were more likely to work in the private sector, be self-employed, have longer tenure at their current position, have more work experience, and to be in a union.

Although the occupational and industry categories in the SIPP data changed midway through the study periods, the distributions of men and women across occupations and industry were generally consistent for the last 2 study years. Specifically, the top three occupations for women were office and administrative support; sales and related services; and education, training, and library services, with 20, 10, and 10 percent of women working in these occupations respectively in 2009. Men tended not to be as concentrated in just a few occupations. In 2009, the highest proportions of men were employed in management (9 percent), sales and related occupations (8 percent), construction and extraction (8 percent), and transportation and material moving (8 percent). Similarly, in 2009, the top three industries for women were health care and social assistance (21 percent), educational services (14 percent), and retail trade (10 percent). For men in this year, the top three industries in which men were employed were manufacturing (13 percent), construction (9 percent), and retail trade (9 percent).

[4]This result is consistent with Census findings, which note a higher male-to-female ratio among the Hispanic population in the United States than among the general population.

Table 13: Characteristics of the Working Population over Time

	1999		2003		2006		2009	
	Percentage of		Percentage of		Percentage of		Percentage of	
	Men	Women	Men	Women	Men	Women	Men	Women
Gender	53	47	53	47	53	47	53	47
Age groups								
18-24	12	13	12	13	13	13	12	13
25-34	26	25	24	23	23	22	23	22
35-44	29	29	27	27	26	25	24	23
45-54	22	22	24	25	24	25	25	26
55-64	11	11	13	13	14	14	16	16
Marital status								
Married	62	57	61	57	59	56	59	55
Widowed	1	3	1	2	1	2	1	2
Divorced	9	13	10	14	10	13	9	13
Separated	2	3	2	3	2	2	2	2
Never married	26	23	27	24	29	26	29	27
Children in the household	46	49	44	46	44	47	42	44
Single parent	8	16	7	16	8	16	8	16
Race and ethnicity								
White, Non-Hispanic	76	75	73	72	69	70	69	70
Black, Non-Hispanic	9	12	9	12	10	12	9	12
Hispanic	11	9	14	11	15	11	16	12
Asian, Non-Hispanic	3	4	4	4	4	3	4	4
Other, Non-Hispanic	1	1	1	1	2	3	2	3
Citizenship								
Noncitizen	7	6	9	6	10	7	10	6
Immigrant status								
Naturalized immigrant	4	4	5	5	6	6	7	7
Education level								
No high school diploma	12	9	12	8	8	5	8	5

	1999		2003		2006		2009	
	Percentage of		Percentage of		Percentage of		Percentage of	
	Men	Women	Men	Women	Men	Women	Men	Women
High school diploma	32	30	29	27	30	26	27	23
Some college	30	34	30	35	35	39	35	39
Bachelor's degree or higher	26	27	29	29	28	31	30	33
Part-time status[a]								
Part time	22	37	23	38	22	36	26	37
Self-employment status								
Self-employed	16	10	15	10	15	10	16	10
Average years of tenure at current job	8.0	6.9	8.0	7.0	7.8	7.2	8.2	7.7
Work experience								
Less than 5 years	26	29	26	31	25	28	26	30
5 to 9 years	14	17	14	15	14	16	14	16
10 to 15 years	11	12	11	11	10	11	12	12
More than 15 years	49	43	49	43	50	45	48	41
Average years of total work experience	10.8	9.4	11.1	9.7	11.4	10.3	11.9	10.7
Sector								
Private for profit	70	63	69	62	71	62	68	61
Private not for profit	4	10	4	10	4	10	4	10
Government	13	18	13	19	12	18	14	19
Family worker without pay	1	1	0	1	0	1	0	1
Not in universe	13	7	13	8	12	8	13	8
Union status								
In union	17	12	15	12	14	12	15	13
Occupation								
Management	NA	NA	NA	NA	9	7	9	7
Business and Financial Operations	NA	NA	NA	NA	3	4	3	5
Computer and Mathematical	NA	NA	NA	NA	3	2	4	1
Architecture and Engineering	NA	NA	NA	NA	3	1	3	1
Life, Physical, and Social Services	NA	NA	NA	NA	1	1	1	1
Community and Social Services	NA	NA	NA	NA	1	2	1	2

	1999		2003		2006		2009	
	Percentage of		Percentage of		Percentage of		Percentage of	
	Men	Women	Men	Women	Men	Women	Men	Women
Legal	NA	NA	NA	NA	1	1	1	1
Education, Training, and Library	NA	NA	NA	NA	3	10	3	10
Arts, Design, Entertainment, Sports, and Media	NA	NA	NA	NA	1	1	1	1
Healthcare Practitioners and Technical	NA	NA	NA	NA	2	8	2	8
Healthcare Support	NA	NA	NA	NA	0	4	0	4
Protective Service	NA	NA	NA	NA	3	1	3	1
Food Preparation and Serving Related	NA	NA	NA	NA	4	6	4	6
Building and Grounds Cleaning and Maintenance	NA	NA	NA	NA	4	3	4	3
Personal Care and Service	NA	NA	NA	NA	1	4	1	4
Sales and Related	NA	NA	NA	NA	8	10	8	10
Office and Administrative Support	NA	NA	NA	NA	7	22	6	20
Farming, Forestry, and Fishing	NA	NA	NA	NA	1	0	1	0
Construction and Extraction	NA	NA	NA	NA	9	0	8	0
Installation, Repair, and Maintenance	NA	NA	NA	NA	6	0	6	0
Production	NA	NA	NA	NA	9	4	7	3
Transportation and Material Moving	NA	NA	NA	NA	9	2	8	2
Not in universe[b]	NA	NA	NA	NA	12	7	14	8
Industry								
Agriculture	NA	NA	NA	NA	1	0	1	1
Mining	NA	NA	NA	NA	1	0	1	0
Utilities	NA	NA	NA	NA	1	0	1	0
Construction	NA	NA	NA	NA	10	1	9	1
Manufacturing	NA	NA	NA	NA	15	7	13	6
Wholesale Trade	NA	NA	NA	NA	4	2	3	2
Retail Trade	NA	NA	NA	NA	10	10	9	10
Transportation and Warehousing	NA	NA	NA	NA	5	2	5	2
Information	NA	NA	NA	NA	2	2	2	2
Finance and Insurance	NA	NA	NA	NA	3	6	3	6

	1999		2003		2006		2009	
	Percentage of		Percentage of		Percentage of		Percentage of	
	Men	Women	Men	Women	Men	Women	Men	Women
Real Estate and Rental and Leasing	NA	NA	NA	NA	1	2	1	1
Professional, Scientific, and Technical	NA	NA	NA	NA	5	5	5	5
Management, Administrative and Support	NA	NA	NA	NA	4	3	4	3
Educational Services	NA	NA	NA	NA	5	14	6	14
Health Care and Social Assistance	NA	NA	NA	NA	4	19	4	21
Arts, Entertainment, and Recreation	NA	NA	NA	NA	1	2	2	2
Accommodations and Food Services	NA	NA	NA	NA	5	7	6	8
Other Services (Except Public Administration)	NA	NA	NA	NA	3	4	3	4
Public Administration	NA	NA	NA	NA	6	5	5	5
Active duty	NA	NA	NA	NA	1	0	1	0
Not in universe[b]	NA	NA	NA	NA	12	7	13	8
Household income bracket								
Less than $20,000	7	8	6	8	7	8	8	9
$20,000-$40,000	17	18	16	18	16	17	16	16
$40,000-$60,000	20	20	19	19	19	19	18	19
$60,000-$80,000	18	17	17	17	16	16	16	15
Greater than $80,000	38	36	41	39	42	41	41	40
Firm size								
Under 25 employees	18	19	18	19	19	19	18	18
25 to 100 employees	12	11	12	11	11	11	11	11
100+ employees	58	62	58	62	57	63	58	63
Not in universe[b]	13	7	13	8	12	8	13	8

Source: GAO analysis of SIPP data.

Note: The categories for occupation and industry changed between the 2001 and 2003 SIPP panels. We present the categories for the two most recent panels.

[a]Part-time status is defined as working 35 hours or less per week during the reference period.

[b]The category "Not in universe" includes self-employed individuals.

Factors Associated with Working for an Employer That Offers a Plan

Table 14 shows the results of two models that analyze factors associated with the probability of working for an employer that offers (1) any type of pension plan (DB or DC) or (2) a DC plan. The first column presents the variables that were included in each model. The third and fifth columns present odds ratios that are estimated for each variable in the model.[5] The interpretation of the odds ratio for a particular variable depends on whether the variable has only two or more than two categories.[6] For dichotomous (or dummy) variables, odds ratios that are statistically significant and greater than 1.00 indicate that individuals with that characteristic are more likely to work for an employer that offers a plan. For example, an odds ratio of 1.25 for women would mean that women are 1.25 times more likely to work for an employer that offers a plan. Odds ratios that are significantly lower than 1.00 indicate that individuals with that characteristic are less likely to work for an employer that offers a plan. For categorical variables with more than two categories, a statistically significant odds ratio that is greater/less than 1.00 indicates that individuals in that category are more/less likely to work for an employer that offers a plan than individuals in the category that is chosen as the referent or comparison category.

As shown in the body of the report, before controlling for differences between men and women in demographic and occupational characteristics, a greater proportion of women worked for employers that offered plans in 2009. Interestingly, table 14 shows that after accounting for demographic and occupational characteristics, women have slightly lower odds of working for an employer that offers a DC plan than men. In fact, the positive gender effect for women is eliminated when we control for occupational characteristics using a statistical model (results not shown below). In other words, women's higher likelihood of working for an employer that offers a plan is largely due to the types of occupations and industries in which women work. (The odds ratios for the specific occupations and industries, which are too numerous to discuss here, are listed in the table.)

[5]Odds (O) are mathematically related to but not the same as probabilities (P), that is O=P/[1-P].

[6]While dummy and categorical variables are both discrete variables, a dummy variable takes on a value of 0 or 1. A categorical variable takes a value that is one of several possible categories and there is no intrinsic ordering to the categories.

We found that several other factors are associated with the likelihood of working for an employer that offers a plan. While the details are shown in the table, the factors that were positively associated with working for an employer that offers either a DB or DC plan (and that were statistically significant at the 95 percent confidence level) included age; being divorced (relative to married); education level; U.S. citizenship; working in the government or nonprofit sector (in comparison to the private sector); having 5 to 9 years of work experience (in comparison to having less than 5 years); union membership; job tenure; and firm size.

Factors that were negatively associated with working for an employer that offers a plan included being never married (in comparison to being married); being a single parent; being Black, Hispanic, or Asian (in comparison to White, non-Hispanics); being a naturalized immigrant; working part time; and being self-employed. While the results across both models were generally consistent, some results were significant in one model but not the other.

Table 14: Factors Associated with Working for an Employer That Offers a Plan, 2009

Dependent variable	Unadjusted proportion with employer that offers a DB or DC plan	Employer offers a DB or DC plan	Unadjusted proportion with employer that offers a DC plan	Employer offers a DC plan
Explanatory variables:				
Gender (omitted category is men)	58%		46%	
Women	61%	0.948	49%	0.938**
Age groups (omitted category age 18-24)	42%		33%	
25-34	60%	1.494***	49%	1.615***
35-44	62%	1.499***	50%	1.608***
45-54	64%	1.518***	51%	1.620***
55-64	63%	1.229***	48%	1.300***
Marital status (omitted category married)	63%		50%	
Widowed	59%	1.059	46%	1.083
Divorced	64%	1.135**	51%	1.097**
Separated	53%	1.008	42%	1.000
Never married	52%	0.906**	41%	0.965
Children in the household	59%	1.101**	47%	1.027
Single parent	49%	0.793***	39%	0.869**

Dependent variable	Unadjusted proportion with employer that offers a DB or DC plan	Employer offers a DB or DC plan	Unadjusted proportion with employer that offers a DC plan	Employer offers a DC plan
Race and ethnicity (omitted category White)	63%		51%	
Black, Non-Hispanic	61%	0.750***	46%	0.758***
Hispanic	43%	0.605***	32%	0.663***
Asian, Non-Hispanic	56%	0.761***	46%	0.882
Other, Non-Hispanic	59%	0.855*	47%	0.897
Education level (omitted category No high school diploma)	30%		24%	
High school diploma	51%	1.297***	39%	1.196***
Some college	61%	1.772***	48%	1.543***
Bachelor's degree or higher	72%	1.997***	57%	1.606***
Citizen	62%	1.577***	49%	1.499***
Naturalized immigrant	54%	0.737***	42%	0.787***
Part-time status (omitted category is full time)[a]	66%		52%	
Part-time	46%	0.763***	38%	0.925***
Sector (omitted category private sector)	60%		50%	
Private not for profit	73%	1.430***	59%	1.243***
Government worker	88%	2.142***	61%	1.062
Occupation (omitted category Management)	76%		64%	
Business and Financial Operations	82%	1.133	70%	1.053
Computer and Mathematical	85%	1.222*	73%	1.036
Architecture and Engineering	88%	1.737***	73%	1.196
Life, Physical, and Social Services	87%	1.067	68%	0.779*
Community and Social Services	74%	0.895	54%	0.701***
Legal	77%	1.139	66%	1.190
Education, Training, and Library	81%	0.605***	57%	0.600***
Arts, Design, Entertainment, Sports, and Media	64%	0.729**	52%	0.745**
Healthcare Practitioners and Technical	82%	1.314***	68%	1.003
Healthcare Support	57%	0.635***	46%	0.617***
Protective Service	77%	0.684***	54%	0.631***
Food Preparation and Serving Related	34%	0.530***	27%	0.524***
Building and Grounds Cleaning and Maintenance	42%	0.619***	30%	0.545***
Personal Care and Service	33%	0.326***	25%	0.363***
Sales and Related	60%	0.634***	49%	0.620***
Office and Administrative Support	69%	0.864*	55%	0.785***
Farming, Forestry, and Fishing	16%	0.265***	12%	0.290***

Dependent variable	Unadjusted proportion with employer that offers a DB or DC plan	Employer offers a DB or DC plan	Unadjusted proportion with employer that offers a DC plan	Employer offers a DC plan
Construction and Extraction	44%	0.690***	31%	0.595***
Installation, Repair, and Maintenance	66%	0.856	56%	0.929
Production	66%	0.607***	53%	0.628***
Transportation and Material Moving	61%	0.673***	48%	0.627***
Not in universe[b]	15%	0.894	10%	0.411***
Industry (omitted category Agriculture)	19%		16%	
Mining	69%	1.515	54%	1.235
Utilities	89%	3.134***	69%	1.785**
Construction	45%	1.379	33%	1.145
Manufacturing	76%	2.697***	63%	2.036***
Wholesale Trade	69%	2.725***	55%	1.923***
Retail Trade	62%	2.052***	51%	1.668**
Transportation and Warehousing	71%	1.763**	55%	1.525*
Information	76%	2.228***	63%	1.761**
Finance and Insurance	84%	3.571***	73%	2.614***
Real Estate and Rental and Leasing	49%	1.301	41%	1.255
Professional, Scientific, and Technical	71%	2.197***	61%	1.884***
Management, Administrative and Support	42%	1.059	34%	1.013
Educational Services	84%	2.120***	60%	1.461
Health Care and Social Assistance	67%	1.733**	55%	1.559*
Arts, Entertainment, and Recreation	51%	1.453	40%	1.268
Accommodations and Food Services	34%	0.996	28%	0.905
Other Services (Except Public Administration)	38%	1.144	30%	0.972
Public Administration	89%	2.198***	64%	1.499
Work experience (omitted category Less than 5 years)	56%		45%	
5 to 9 years	67%	1.140***	53%	1.069*
10 to 15 years	71%	1.033	56%	1.013
More than 15 years	57%	0.978	45%	0.989
Union status (omitted category not in a union)	63%		51%	
In a union	87%	1.903***	62%	1.094**
Self-employment status	19%	0.525***	14%	0.671***
Number of employees at current place of employment (omitted category Under 25 employees))	25%		19%	
25 to 100 employees	57%	3.291***	46%	3.021***
100+ employees	79%	7.618***	63%	5.528***

Dependent variable	Unadjusted proportion with employer that offers a DB or DC plan	Employer offers a DB or DC plan	Unadjusted proportion with employer that offers a DC plan	Employer offers a DC plan
Years of tenure at current job		1.042***	9%	1.015***
Tenure categories				
Less than 5 years	56%		45%	
5 to 9 years	69%		54%	
10 to 15 years	76%		60%	
More than 15 years	82%		63%	
Number of observations		37,038		37,038

Source: GAO analysis of SIPP data.

*Indicates that the variable is statistically significant at the 90 percent level.

**Indicates that the variable is statistically significant at the 95 percent level.

***Indicates that the variable is statistically significant at the 99 percent level.

[a]Part-time status is defined as working 35 hours or less per week during the reference period.

[b]The category "Not in universe" includes self-employed individuals.

Factors Associated with Eligibility for Employer-Sponsored Pension Plan

Table 15 shows the results of a model we estimated to analyze factors associated with whether an individual is eligible for their employer's plan. It is presented in the same format as table 14. As shown in the body of the report, women had lower rates of plan eligibility across all 4 study years. The results of the model show that, even after controlling for demographic and occupational differences between men and women, women had significantly lower rates of eligibility in 2009. Perhaps most interesting is the odds ratio for part-time status, which indicates that part-time workers are approximately one-third as likely to be eligible for their employer's plan as full-time workers. In addition, work experience and tenure are also significantly and positively related with eligibility. Union status is also positively associated with plan eligibility.

Table 15: Factors Associated with Eligibility for Employer-Sponsored Pension Plan, 2009

Dependent variable	Unadjusted proportion eligible for a DB or DC plan	Individual is eligible for a DB or DC plan
Gender (omitted category is men)	91%	
Women	87%	0.861**
Age groups (omitted category age 18-24)	55%	
25-34	88%	2.589***
35-44	93%	2.957***
45-54	94%	2.846***
55-64	93%	2.106***
Marital status (omitted category married)	92%	
Widowed	88%	0.637**
Divorced	92%	1.021
Separated	89%	0.998
Never married	77%	0.795***
Children in the household	89%	0.906
Single parent	77%	0.963
Race and ethnicity (omitted category White)	89%	
Black, Non-Hispanic	87%	0.998
Hispanic	87%	1.028
Asian, Non-Hispanic	90%	1.011
Other, Non-Hispanic	86%	1.023
Education level (omitted category No high school diploma)	82%	
High school diploma	87%	0.881
Some college	86%	0.872
Bachelor's degree or higher	93%	1.128
Citizen	89%	1.235
Naturalized immigrant	91%	0.886
Part-time status (omitted category is full time)[a]	94%	
Part-time	73%	0.315***
Sector (omitted category private sector)	87%	
Private not for profit	87%	0.867
Government worker	92%	0.996
Occupation (omitted category Management)	96%	
Business and Financial Operations	95%	0.958
Computer and Mathematical	95%	0.941
Architecture and Engineering	96%	1.088
Life, Physical, and Social Services	95%	0.924

Dependent variable	Unadjusted proportion eligible for a DB or DC plan	Individual is eligible for a DB or DC plan
Community and Social Services	90%	0.579**
Legal	94%	0.823
Education, Training, and Library	88%	0.492***
Arts, Design, Entertainment, Sports, and Media	87%	0.535**
Healthcare Practitioners and Technical	90%	0.595***
Healthcare Support	79%	0.346***
Protective Service	92%	0.533***
Food Preparation and Serving Related	65%	0.395***
Building and Grounds Cleaning and Maintenance	83%	0.396***
Personal Care and Service	69%	0.299***
Sales and Related	81%	0.466***
Office and Administrative Support	87%	0.474***
Farming, Forestry, and Fishing	89%	0.598
Construction and Extraction	92%	0.693
Installation, Repair, and Maintenance	93%	0.638**
Production	92%	0.482***
Transportation and Material Moving	85%	0.417***
Not in universe[b]	96%	1.461
Industry (omitted category Agriculture)	90%	
Mining	92%	0.765
Utilities	98%	1.572
Construction	91%	0.684
Manufacturing	94%	1.055
Wholesale Trade	92%	1.090
Retail Trade	79%	0.682
Transportation and Warehousing	90%	0.717
Information	91%	0.952
Finance and Insurance	92%	1.006
Real Estate and Rental and Leasing	89%	0.907
Professional, Scientific, and Technical	93%	0.854
Management, Administrative and Support	85%	0.656
Educational Services	88%	0.599
Health Care and Social Assistance	88%	0.831
Arts, Entertainment, and Recreation	75%	0.462
Accommodations and Food Services	67%	0.538
Other Services (Except Public Administration)	86%	0.738

Dependent variable	Unadjusted proportion eligible for a DB or DC plan	Individual is eligible for a DB or DC plan
Public Administration	95%	1.076
Work experience (omitted category Less than 5 years)	78%	
5 to 9 years	92%	1.419***
10 to 15 years	95%	1.435***
More than 15 years	92%	0.895*
Union status (omitted category not in a union)	87%	
In a union	95%	2.070***
Self-employment status	91%	0.864
Number of employees at current place of employment (omitted category Under 25 employees)	85%	
25 to 100 employees	88%	1.165*
100+ employees	89%	1.300***
Years of tenure at current job		1.169***
Tenure categories		
Less than 5 years	78%	
5 to 9 years	93%	
10 to 15 years	97%	
More than 15 years	99%	
Number of observations		24,274

Source: GAO analysis of SIPP data.

*Indicates that the variable is statistically significant at the 90 percent level.

**Indicates that the variable is statistically significant at the 95 percent level.

***Indicates that the variable is statistically significant at the 99 percent level.

[a]Part-time status is defined as working 35 hours or less per week during the reference period.

[b]The category "Not in universe" includes self-employed individuals.

Factors Associated with Participation in an Employer-Sponsored Pension Plan

Table 16 shows the results of two models we estimated to analyze factors associated with the probability of participating in (1) any type of pension plan (DB or DC) or (2) a DC plan. Again, it is presented in the same format as tables 14 and 15.

As shown in the body of the report, before controlling for differences between men and women in demographic and occupational characteristics, a smaller proportion of women participated in an employer-sponsored pension plan. Our analysis shows that the gender differences in plan participation are largely accounted for by differences between men and women in demographic and occupational characteristics.

Similar to our other models, we identify a number of factors that are related to plan participation. The factors that were positively related to participating in either a DB or a DC (and that are statistically significant at the 95 percent level) include age; education-level; being Asian (relative to whites); U.S. citizenship; working in the nonprofit or government sector (relative to the private sector); work-experience; union membership; and tenure. Factors that were negatively related to participating in a plan included being a single parent; working part-time; and being Black or Hispanic. A number of industries and occupations, too numerous to list, were statistically significant as shown in the table below.

Table 16: Factors Associated with Participation in an Employer-Sponsored Pension Plan, 2009

Dependent variable	Unadjusted proportion participating in a DB or DC plan	Individual participates in a DB or DC plan	Unadjusted proportion participating in a DC plan	Individual participates in a DC plan
Gender (omitted category is men)	87%		79%	
Women	86%	0.973	78%	1.099*
Age groups (omitted category age 18-24)	63%		54%	
25-34	83%	1.547***	75%	1.659***
35-44	87%	1.627***	80%	1.821***
45-54	91%	1.843***	83%	1.924***
55-64	92%	1.691***	82%	1.642***
Marital status (omitted category married)	90%		82%	
Widowed	90%	1.173	82%	1.129
Divorced	86%	0.867	78%	0.911
Separated	79%	0.871	68%	0.784
Never married	78%	0.888	71%	0.961
Children in the household	87%	1.125	79%	1.138*
Single parent	76%	0.805**	68%	0.844*
Race and ethnicity (omitted category White)	88%		81%	
Black, Non-Hispanic	81%	0.705***	68%	0.579***
Hispanic	77%	0.684***	69%	0.737***
Asian, Non-Hispanic	90%	1.304*	85%	1.500***
Other, Non-Hispanic	86%	1.108	77%	0.950
Education level (omitted category No high school diploma)	69%		61%	
High school diploma	82%	1.275**	72%	1.190
Some college	85%	1.617***	77%	1.548***
Bachelor's degree or higher	92%	2.318***	84%	1.871***
Citizen	87%	1.619***	79%	1.570***

Dependent variable	Unadjusted proportion participating in a DB or DC plan	Individual participates in a DB or DC plan	Unadjusted proportion participating in a DC plan	Individual participates in a DC plan
Naturalized immigrant	87%	0.991	80%	1.055
Part-time status (omitted category is full time)[a]	88%		80%	
Part-time	81%	0.791***	74%	0.851***
Sector (omitted category private sector)	83%		77%	
Private not for profit	88%	1.274***	80%	1.219***
Government worker	94%	1.902***	82%	1.239**
Occupation (omitted category Management)	92%		87%	
Business and Financial Operations	91%	0.885	85%	0.847
Computer and Mathematical	91%	0.823	86%	0.790
Architecture and Engineering	94%	1.256	89%	0.969
Life, Physical, and Social Services	96%	1.387	90%	1.147
Community and Social Services	88%	0.636**	82%	0.808
Legal	92%	0.883	86%	0.856
Education, Training, and Library	92%	0.606***	79%	0.520***
Arts, Design, Entertainment, Sports, and Media	86%	0.661*	79%	0.609**
Healthcare Practitioners and Technical	87%	0.712**	80%	0.694**
Healthcare Support	75%	0.545***	64%	0.457***
Protective Service	93%	0.727	80%	0.713**
Food Preparation and Serving Related	63%	0.556***	53%	0.488***
Building and Grounds Cleaning and Maintenance	76%	0.570***	63%	0.542***
Personal Care and Service	73%	0.516***	63%	0.483***
Sales and Related	82%	0.734**	75%	0.678***
Office and Administrative Support	84%	0.576***	76%	0.574***
Farming, Forestry, and Fishing	82%	0.913	78%	1.014
Construction and Extraction	89%	0.914	79%	0.681*
Installation, Repair, and Maintenance	85%	0.627***	77%	0.613***
Production	82%	0.476***	75%	0.523***
Transportation and Material Moving	83%	0.723**	73%	0.650***
Not in universe[b]	94%	2.604*	88%	0.765
Industry (omitted category Agriculture)	76%		72%	
Mining	94%	5.874***	91%	5.571***
Utilities	94%	3.325***	84%	1.871*
Construction	89%	2.673***	81%	2.222**
Manufacturing	88%	2.907***	82%	2.401***
Wholesale Trade	86%	2.567**	82%	2.330**
Retail Trade	77%	1.770*	69%	1.435
Transportation and Warehousing	87%	1.937*	77%	1.683
Information	88%	2.520**	82%	2.107**
Finance and Insurance	92%	4.287***	86%	2.868***
Real Estate and Rental and Leasing	77%	1.346	68%	1.120
Professional, Scientific, and Technical	89%	2.555***	84%	2.059**

Dependent variable	Unadjusted proportion participating in a DB or DC plan	Individual participates in a DB or DC plan	Unadjusted proportion participating in a DC plan	Individual participates in a DC plan
Management, Administrative and Support	74%	1.511	68%	1.291
Educational Services	92%	2.231**	80%	1.612
Health Care and Social Assistance	83%	1.824*	76%	1.513
Arts, Entertainment, and Recreation	75%	1.253	66%	1.117
Accommodations and Food Services	60%	1.057	55%	1.017
Other Services (Except Public Administration)	81%	1.845*	71%	1.183
Public Administration	96%	4.284***	85%	1.868*
Work experience (omitted category Less than 5 years)	77%		69%	
5 to 9 years	85%	1.150**	77%	1.185**
10 to 15 years	89%	1.250***	82%	1.305***
More than 15 years	91%	1.195**	84%	1.250***
Union status (omitted category not in a union)	85%			
In a union	93%	1.579***	80%	0.980
Self-employment status	91%	1.020	85%	0.860
Number of employees at current place of employment (omitted category Under 25 employees)	83%		79%	
25 to 100 employees	82%	0.916	77%	0.878
100+ employees	87%	1.172*	79%	0.936
Years of tenure at current job		1.084***		1.036***
Tenure categories				
Less than 5 years	77%		69%	
5 to 9 years	87%		80%	
10 to 15 years	92%		85%	
More than 15 years	96%		87%	
Number of observations		21,494		17,067

Source: GAO analysis of SIPP data.

*Indicates that the variable is statistically significant at the 90 percent level.

**Indicates that the variable is statistically significant at the 95 percent level.

***Indicates that the variable is statistically significant at the 99 percent level.

[a]Part-time status is defined as working 35 hours or less per week during the reference period.

[b]The category "Not in universe" includes self-employed individuals.

Section 3: Methods for Comparing the Income of Women and Men Age 65 and Over

To compute median incomes and income composition for men and women in different demographic groups, we used information from the core questionnaire of the SIPP data (as described above). We used the last month of the 4-month reporting period (within each "wave") with the assumption that individuals will more accurately recollect income from the most recent month than income from 4 months ago. To obtain an annual income estimate, we multiplied the monthly reported income by 12.[7]

The poverty rate was computed using a SIPP variable that indicates the poverty threshold for an individual's household. The Census Bureau uses a set of money-income thresholds that vary by family size and composition to determine who is in poverty. If a family's total income is less than the family's threshold, then that family and every individual in it is considered in poverty. The official poverty thresholds do not vary geographically, but they are updated for inflation using Consumer Price Index (CPI-U). The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).

All of our income composition, median, and poverty level estimates were computed at the individual level, using household-level information. In other words, median incomes were computed by applying all household income to each individual in the household and taking the median across all individuals within a certain category (e.g., gender, or gender and race). For married individuals, this means that spousal income was included in these estimates. Correspondingly, we used SIPP individual-level weights to compute our point estimates and, in conjunction with other factors, calculate the standard errors of those estimates so that we could accurately account for the complex survey design.

The point estimates for household income for married men and married women may not be equal for a couple of reasons. First, the criteria for including an individual in the sample in our analysis was that he or she was 65 or above. While there are more women than men among all people over 65 in our sample, among married people over 65 there are more men than women.[8] One reason this might occur is due to

[7]This method might result in overstated estimates from earnings if workers do not work all 12 months of the year.

[8]These patterns held across all the years we analyzed.

demographic patterns of life-expectancy and the ages of marital partners.[9] Since women typically marry older men, and women typically have longer life-expectancies than men, it is not surprising that a sample of older individuals will include fewer married women than married men, as the spouses of older women are more likely to have died than the spouses of older men. For this reason, the sample of married older women could differ from the sample of married older men, so their household characteristics—including income—may not be the same. Further, the difference between the ages of the spouses of married men and married women could also result in different estimates of median income and income composition. For example, if women tended to be married to older men, the income composition of the household might be skewed away from earnings and towards Social Security. Conversely, if men tended to be married to younger women, a higher share of income might come from earnings.

Section 4: Methods for Analyzing the Effects of Events Occurring Later in Life on Women's and Men's Household Income and Assets

We estimated the relationship between events that occur later in life and income and assets using fixed-effects panel regressions. The main advantage of fixed-effects models is that they are designed to isolate the effect of the event from all other permanent characteristics of the individual. We estimated our models using data from the HRS, which follows households over time. Our analysis focuses on life events that occur after age 50, as the HRS follows individuals age 51 and over.

Descriptive Analysis of the Frequency of Life Events by Gender

Prior to analyzing the effect of the life events on assets and income, we first estimated the differences in the frequency of life events by gender. We estimated these differences in two ways. First, we estimated the proportion of women and men that had a life event across all the periods (e.g., proportion that were divorced). Second, we estimated the proportion of women and men that had that life event change between two periods

[9] It is also possible that the survey response rate was higher for married men than for married women.

of observation (e.g., proportion that became divorced between period 1 and period 2).

Table 19 uses the first method and presents some descriptive statistics on the women and men in our sample. Specifically, it shows the average values of characteristics for different ages for women and men.

- *Real assets and real income.* At ages 51 to 64 women and men have similar levels of assets. However, after age 65, men's average level of household assets becomes larger than the average level for women. Men's average levels of household income are higher than women's at every age level.
- *Marital status.* The rates of marriage and widowhood are relatively comparable between women and men before age 65. For example, 6 percent of women and 1 percent of men younger than age 65 were widowed. However, at older ages, more women were estimated to be widowed than men.
- *Poor health.* Individuals were classified as being in poor health based on a survey question of self-reported health, which asked the individual to rate his or her health on a scale from 1 to 5, where 1 is excellent and 5 is poor. An answer of "fair" or "poor" was classified as being in poor health. As table 17 shows, rates of poor health were comparable between women and men at all age groups.
- *Unemployment.* This variable captures the percentage of individuals that responded to a labor force question as being "unemployed". It is important to note that this is not equivalent to an unemployment rate—as individuals classified as not in the labor force were included in the denominator. Women and men were equally likely to report being unemployed.
- *Helping parents financially or with daily activities.* These variables capture the percentage of households that provided financial help or assistance with basic daily activities to either the parents of the respondent or spouse. Again, it appears that these rates were comparable for women and men.

Table 17: Descriptive Statistics of Women and Men in the HRS by Age

	Age	Estimate	Standard error	Lower bound of 95 percent confidence interval	Upper bound of 95 percent confidence interval	Error over estimate
Women						
Mean real household assets	Under age 51	$446,436	$18,911	$409,372	$483,500	4.24%
	Ages 51-64	$537,262	$9,039	$519,546	$554,978	1.68%
	Ages 65-84	$522,190	$6,020	$510,391	$533,989	1.15%
	Ages 85-99	$359,269	$12,341	$335,071	$383,447	3.44%
Mean real household income	Under age 51	$128,325	$6,899	$114,803	$141,847	5.38%
	Ages 51-64	$98,116	$1,185	$95,794	$100,438	1.21%
	Ages 65-84	$55,014	$348	$54,332	$55,696	0.63%
	Ages 85-99	$32,728	$746	$31,275	$34,201	2.28%
Percent married	Under age 51	87%	0.46%	86%	88%	0.52%
	Ages 51-64	78%	0.19%	78%	78%	0.24%
	Ages 65-84	64%	0.20%	63%	64%	0.32%
	Ages 85-99	23%	0.48%	22%	24%	2.05%
Percent divorced or separated	Under age 51	6%	0.33%	5%	6%	5.67%
	Ages 51-64	12%	0.16%	12%	13%	1.27%
	Ages 65-84	8%	0.12%	7%	8%	1.55%
	Ages 85-99	4%	0.23%	4%	5%	5.71%
Percent widowed	Under age 51	1%	0.11%	0%	1%	16.19%
	Ages 51-64	6%	0.10%	6%	6%	1.74%
	Ages 65-84	26%	0.19%	26%	26%	0.72%
	Ages 85-99	70%	0.53%	69%	71%	0.76%
Percent in poor health	Under age 51	15%	0.45%	14%	16%	3.01%
	Ages 51-64	21%	0.18%	21%	21%	0.87%
	Ages 65-84	28%	0.19%	28%	29%	0.66%
	Ages 85-99	40%	0.57%	39%	41%	1.41%
Percent unemployed	Under age 51	3%	0.22%	3%	3%	7.34%
	Ages 51-64	2%	0.06%	2%	2%	3.48%
	Ages 65-84	0.1%	0.01%	0%	0%	13.11%
	Ages 85-99	0%	0.01%	0%	0%	100.00%
Percent who helped their parents financially	Under age 51	16%	0.48%	15%	17%	3.00%
	Ages 51-64	11%	0.15%	11%	11%	1.33%
	Ages 65-84	2%	0.06%	2%	2%	3.06%
	Ages 85-99	0.1%	0.03%	0%	0%	48.61%
Percent who helped their parents with daily activities	Under age 51	8%	0.34%	7%	8%	4.56%
	Ages 51-64	9%	0.13%	9%	9%	1.51%
	Ages 65-84	3%	0.07%	2%	3%	2.70%
	Ages 85-99	0.1%	0.03%	0%	0%	52.68%

	Age	Estimate	Standard error	Lower bound of 95 percent confidence interval	Upper bound of 95 percent confidence interval	Error over estimate
Men						
Mean real household assets	Under age 51	$369,106	$19,9401	$330,023	$408,189	5.40%
	Ages 51-64	$540,761	$9,581	$521,982	$559,541	1.77%
	Ages 65-84	$638,166	$8,352	$621,796	$654,537	1.31%
	Ages 85-99	$528,611	$17,682	$493,955	$563,268	3.35%
Mean real household income	Under age 51	$107,801	$3,371	$101,194	$114,409	3.13%
	Ages 51-64	$112,785	$1,726	$109,402	$116,168	1.53%
	Ages 65-84	$72,767	$1,718	$69,400	$76,133	2.36%
	Ages 85-99	$48,073	$1,023	$46,068	$50,078	2.13%
Percent married	Under age 51	76%	1.25%	74%	79%	1.63%
	Ages 51-64	83%	0.20%	83%	84%	0.24%
	Ages 65-84	85%	0.17%	85%	85%	0.19%
	Ages 85-99	71%	0.62%	70%	72%	0.87%
Percent Divorced or Separated	Under age 51	9%	0.85%	7%	11%	9.61%
	Ages 51-64	10%	0.17%	10%	11%	1.60%
	Ages 65-84	6%	0.11%	5%	6%	2.02%
	Ages 85-99	2%	0.21%	2%	3%	8.62%
Percent widowed	Under age 51	0.1%	0.10%	0%	0%	70.66%
	Ages 51-64	1%	0.06%	1%	2%	4.24%
	Ages 65-84	7%	0.11%	6%	7%	1.66%
	Ages 85-99	24%	0.59%	23%	26%	2.41%
Percent in poor health	Under age 51	18%	1.11%	15%	20%	6.34%
	Ages 51-64	20%	0.20%	20%	21%	0.98%
	Ages 65-84	28%	0.19%	28%	29%	0.68%
	Ages 85-99	40%	0.66%	39%	41%	1.65%
Percent unemployed	Under age 51	3%	0.49%	2%	4%	15.70%
	Ages 51-64	2%	0.07%	2%	2%	3.58%
	Ages 65-84	0.2%	0.02%	0%	0%	9.73%
	Ages 85-99	0%	0.00%	0%	0%	.
Percent who helped their parents financially	Under age 51	17%	1.14%	15%	20%	6.56%
	Ages 51-64	13%	0.17%	13%	13%	1.34%
	Ages 65-84	4%	0.09%	4%	4%	2.26%
	Ages 85-99	0.2%	0.06%	0%	0%	28.54%
Percent who helped their parents with daily activities	Under age 51	10%	0.91%	8%	12%	9.17%
	Ages 51-64	9%	0.14%	8%	9%	1.67%
	Ages 65-84	4%	0.09%	4%	4%	2.27%
	Ages 85-99	0.3%	0.10%	0%	1%	28.65%

Source: GAO analysis of HRS data.

Table 18 uses the second method to show the proportion of women and men that had a life event status change during the period of analysis. As table 18 shows:

- *Divorce/separation.* During the period in which both members of the household are less than 65, less than 1 percent of men experienced divorce or separation between any of the two waves. For women, the proportion was negative – indicating that more women went from divorced or separated to married than from married to divorced or separated.

- *Widowhood.* During the earlier period, about 1 percent of women became widowed between any of the two waves. This proportion increased to more than 2 percent as the household aged and was twice the rate for men.

- *Decline into poor health.* The rate of health decline was similar for women and men. On average, approximately 2 percent of women and men reported a decline in health from one period to another.

- *Unemployment.* Very few women and men reported a change to and from unemployment in our data.

- *Helping parents financially or with daily activities.* The proportion of women's and men's households providing personal or financial assistance fell as the household aged. This may be because older households were less likely to have living parents requiring assistance.

- *Percent change in real assets.* In the earlier period, assets for women and men increased at a rate of about 6 percent per 2-year period. Alternatively, the rate of asset growth became negative as the household aged.

- *Percent change in real income.* In both younger and older households, incomes fell at a rate of approximately 5 percent per 2-year period, on average.

Table 18: Proportion of Individuals Changing Status between Observations

	Household type	Estimate	Standard error	Lower bound of 95 percent confidence interval	Upper bound of 95 percent confidence interval	Error over estimate
Women						
Divorced or separated	Households where everyone is age 64 or younger	-0.0022	0.0008	-0.0038	-0.0007	(35.40%)
	Households where at least one person is 65 or over	-0.0011	0.0005	-0.002	-0.0001	(46.32%)
	All households	-0.0016	0.0005	-0.0025	-0.0007	(28.13%)
Widowhood	Households where everyone is age 64 or younger	0.0106	0.0007	0.0094	0.0119	6.13%
	Households where at least one person is 65 or over	0.0237	0.0007	0.0223	0.0251	3.05%
	All households	0.0177	0.0005	0.0168	0.0187	2.79%
Decline in health	Households where everyone is age 64 or younger	0.0128	0.0019	0.009	0.0165	14.93%
	Households where at least one person is 65 or over	0.026	0.0016	0.0229	0.0291	6.07%
	All households	0.02	0.0012	0.0176	0.0224	6.12%
Unemployment	Households where everyone is age 64 or younger	-0.0026	0.0011	-0.0047	-0.0005	(40.90%)
	Households where at least one person is 65 or over	-0.0003	0.0003	-0.001	0.0003	(90.77%)
	All households	-0.0014	0.0005	-0.0024	-0.0004	(37.43%)
Helped parents financially	Households where everyone is age 64 or younger	-0.0028	0.0018	-0.0064	0.0008	(65.46%)
	Households where at least one person is 65 or over	-0.006	0.0008	-0.0074	-0.0045	(12.81%)
	All households	-0.0045	0.0009	-0.0064	-0.0027	(20.76%)
Helped parents with daily activities	Households where everyone is age 64 or younger	0.0069	0.0019	0.0031	0.0107	27.91%
	Households where at least one person is 65 or over	-0.0048	0.0009	-0.0065	-0.0031	(18.32%)
	All households	0.0006	0.001	-0.0014	0.0025	177.50%
Real household assets	Households where everyone is age 64 or younger	0.0533	0.0058	0.0419	0.0646	10.87%
	Households where at least one person is 65 or over	-0.0361	0.004	-0.0439	-0.0283	(11.09%)
	All households	0.0041	0.0034	-0.0026	0.0107	84.14%

	Household type	Estimate	Standard error	Lower bound of 95 percent confidence interval	Upper bound of 95 percent confidence interval	Error over estimate
Real household income	Households where everyone is age 64 or younger	-0.0542	0.0051	-0.0642	-0.0441	(9.448%)
	Households where at least one person is 65 or over	-0.054	0.0027	-0.0593	-0.0487	(4.992%)
	All households	-0.0541	0.0028	-0.0595	-0.0487	(5.085%)
Men						
Divorced or separated	Households where everyone is age 64 or younger	0.0007	0.0009	-0.0011	0.0025	126.10%
	Households where at least one person is 65 or over	0.0009	0.0005	0	0.0019	52.34%
	All households	0.0008	0.0005	-0.0002	0.0019	62.40%
Widowhood	Households where everyone is age 64 or younger	0.003	0.0005	0.002	0.004	17.07%
	Households where at least one person is 65 or over	0.0133	0.0006	0.0122	0.0145	4.46%
	All households	0.0082	0.0004	0.0074	0.009	4.79%
Decline in health	Households where everyone is age 64 or younger	0.0171	0.0021	0.013	0.0212	12.33%
	Households where at least one person is 65 or over	0.0348	0.0019	0.0311	0.0384	5.39%
	All households	0.026	0.0014	0.0232	0.0288	5.42%
Unemployment	Households where everyone is age 64 or younger	-0.0002	0.0011	-0.0024	0.002	(513.2%)
	Households where at least one person is 65 or over	0	0.0003	-0.0007	0.0006	(4975%)
	All households	-0.0001	0.0006	-0.0012	0.001	(520.0%)
Helped parents financially	Households where everyone is age 64 or younger	-0.0021	0.002	-0.0061	0.0019	(95.72%)
	Households where at least one person is 65 or over	-0.0068	0.001	-0.0087	-0.0049	(14.16%)
	All households	-0.0045	0.0011	-0.0067	-0.0023	(24.88%)
Helped parents with daily activities	Households where everyone is age 64 or younger	0.0061	0.002	0.0022	0.0101	32.59%
	Households where at least one person is 65 or over	-0.0042	0.0011	-0.0063	-0.0021	(25.43%)
	All households	0.0009	0.0011	-0.0013	0.0031	120.90%

	Household type	Estimate	Standard error	Lower bound of 95 percent confidence interval	Upper bound of 95 percent confidence interval	Error over estimate
Real household assets	Households where everyone is age 64 or younger	0.0566	0.0061	0.0447	0.0684	10.70%
	Households where at least one person is 65 or over	-0.0268	0.0041	-0.0349	-0.0188	(15.37%)
	All households	0.0137	0.0036	0.0066	0.0209	26.41%
Real household income	Households where everyone is age 64 or younger	-0.0486	0.0052	-0.0587	-0.0385	(10.60%)
	Households where at least one person is 65 or over	-0.0536	0.0031	-0.0596	-0.0475	(5.767%)
	All households	-0.0511	0.003	-0.057	-0.0453	(5.835%)

Source: GAO analysis of HRS data.

Estimating the Effects of Events Occurring Later in Life on Assets and Income

In order to examine whether the effects of certain events occurring later in life differ by gender, we used fixed-effects regression models. For example, we estimated how changes in health lead to changes in household assets and income. Researchers use the fixed-effects method because much of the differences in income and wealth between households are consistent over time (as poorer households tend to stay poor and richer households tend to stay rich). The fixed-effects method sweeps away these “time invariant” differences, thus better isolating the effect of health or other life events from other aspects of households that could explain differences.[10]

[10]In addition to the fixed-effects analysis, we also developed “cross-section” regression models. In these models, we attempted to control for a set of demographic and other variables, such as education and age that could be correlated with life events, household assets, and household income. A challenge to this approach is that many factors that affect assets and income are unobserved, and lead to mistaken conclusions. For example, if an individual earns a low wage, that may be connected with poor health and the accumulation of assets. So, while the researcher is attempting to estimate the effect of health on income, what is actually measured is the effect of income on health. In general, in our cross-section models, we found that effects were larger in magnitude than in the fixed-effects models, but these models were not as good a fit to the data as the fixed-effects models.

Specifically, we estimated variations of the following equation, separately by gender:

(1) Log (Household Assets or Income) = $\alpha_i + \alpha_t + \beta$*(poor health) + χ *(marital status) + δ*(other control variables)

Where, α_i and α_t indicate fixed effects for the individual and wave. β is the effect of poor health and δ and χ are the effect of other control variables and marital status.[11] By including a dummy variable for each wave, we attempted to control for all national-level changes that could have affected assets and income, and also have been associated with the life events. Therefore, β can be interpreted as the effect of poor health, measured as the percent difference in average assets between periods where an individual reports poor versus not-poor health. Due to the additional controls, this average percent difference is measured relative to the changes over time, and also relative to the other time-variant measures captured, such as changes in marital status.[12]

However, while some of the life-events are likely associated with the passage of time, the regression does not assume that relationship. For example, if an individual switches from poor health to good health, the fixed-effects regression will also use those transitions to estimate the size of the effect. Similarly, the fixed-effects regression will also use transitions from married to widowed, as well as widowed to married, to estimate the effect of widowhood.

As is common among all regressions, a limitation of the fixed-effects method is that some important variable could be omitted from the model. While the fixed effect controls for all time-invariant attributes, there is still

[11] Other control variables that we included were age (measured as date of wave minus birth year), race and education (categorical), cohort of HRS survey, Census region, region of birth (12 categories, including non-U.S.). In general, in the cross-section models, we found that education was positively related to assets and income, while minority status was negatively related. With some slight variation, we based our choice of control variables on Coile and Milligan. (See Courtney Coile and Kevin Milligan, "How Household Portfolios Evolve After Retirement: The Effect of Aging and Health Shocks," *The Review of Income and Wealth*, vol. 55 no. 2 (Malden, MA: June 2009)).

[12] In order to estimate effects in terms of percents, we estimated the effects on the log of assets or income. In addition, we transformed the coefficients to more closely approximate percent changes by taking the exponent of the estimated coefficient and subtracting 1. Regression variables were weighted by household weights.

the possibility of endogenous relationships. For example, if an individual's health declined because income fell, and not the other way around, that bias could affect our findings.

Some of the life events we examined were likely correlated with changes in household structure, such as changes in marital status. However, if the income of a household falls when an individual leaves, the remaining individuals may not be worse off when it comes to resources because the household now requires fewer resources to meet its needs. To address this, we adjusted the estimated effects by household size; the household's income and assets were scaled by the square root of the individuals in the household. The rationale for using the square root is because the effect of reducing members is diminishing (changing from 1 to 2 has a larger effect than going from 9 to 10). In addition, this analysis estimated the effect of an individual's life event on household assets or income. We did not attempt to determine to what extent a spouse's life event (for married individuals) may have affected household assets or income).

Divorce

Table 19 contains the effects of the first event we analyzed: divorce. We analyzed the effect of divorce on household assets and income, both with and without controlling for the number of people in the household. Across almost all the groups and specifications, the effect of divorce is to reduce assets and income, with larger effects for women than for men. Adjusting for household size tended to reduce the magnitude of the effects.

- *Effect on assets*. Divorce tended to reduce assets for more women than men, with comparable sizes of effects for women and men. For example, among all households, the decline in assets associated with divorce was 41 percent for women and 39 percent for men. When the size of the household was adjusted for, the size of the effect declined, but was still statistically significant.
- *Effect on income*. Divorce reduced income for both women and men, with larger effects for women than men. For example, among all households, the decline in income associated with divorce was 41 percent for women and 23 percent for men. When household size was adjusted for, the size of the effects were much smaller in magnitude.

Table 19: Divorce Effect on Household Assets and Income

	All households		Households where everyone is age 64 or younger		Households where at least one person is 65 or over	
	Women	Men	Women	Men	Women	Men
Effect on assets						
Log point change	-0.53	-0.50	-0.54	-0.50	-0.39	-0.38
Standard error	(0.022)	(0.02)	(0.03)	(0.03)	(0.04)	(0.040)
Percent change	- 41%	-39%	- 41%	- 39%	- 32%	- 32%
Effects on assets per household member						
Log point change	-0.37	-0.32	-0.41	-0.32	-0.18	-0.24
Standard error	(0.022)	(0.022)	(0.03)	(0.03)	(0.04)	(0.04)
Percent change	- 31%	- 28%	- 33%	- 28%	- 17%	- 21%
Effect on income						
Log point change	-0.52	-0.26	- 0.58	-0.29	-0.49	-0.27
Standard error	(0.02)	(0.02)	(0.03)	(0.025)	(0.02)	(0.025)
Percent change	- 41%	- 23%	- 44%	- 25%	- 39%	- 23%
Effect on income per household member						
Log point change	-0.37	-0.09	-0.46	-0.12	-0.29	-0.13
Standard error	(0.02)	(0.02)	(0.03)	(0.03)	(0.020)	(0.025)
Percent change	- 31%	- 9%	- 37%	-11%	- 25%	- 12%

Source: GAO analysis of HRS data.

Widowhood

Table 20 contains the results for widowhood. As with divorce, we analyzed the effect of widowhood on household assets and income, both with and without controlling for the number of people in the household. Across almost all the groups and specifications, the effect of widowhood is to reduce assets and income, with larger effects for women than for men. Adjusting for household size tended to reduce the magnitude of the effects.

- *Effect on assets.* Widowhood reduced assets for both women and men, with larger effects for women than men. For example, among all households, the decline in assets associated with widowhood was 32 percent for women and 27 percent for men. However, part of this effect seems to be associated with the size of the household. Among the households in which at least one member was 65 and over, the decline in assets was not significant when household size was adjusted for.

- *Effect on income.* Widowhood reduced income for both women and men, with larger effects for women than men. For example, among all households, the decline in income associated with widowhood was 37 percent for women and 22 percent for men. Again, part of this effect seems to be associated with the size of the household. When household size was adjusted for, the size of the effects were much smaller in magnitude.

Table 20: Widowhood Effect on Household Assets and Income

	All households		Households where everyone is age 64 or younger		Households where at least one person is 65 or over	
	Women	Men	Women	Men	Women	Men
Effect on assets						
Log point change	-0.39	-0.31	-0.37	-0.26	-0.26	-0.20
Standard error	(0.01)	(0.02)	(0.034)	(0.051)	(0.02)	(0.02)
Percent change	-32%	-27%	-31%	-23%	-23%	-18%
Effect on assets per household member						
Log point change	-0.19	-0.11	-0.20	-0 .03	-0.02	-0.00
Standard error	(0.01)	(0.02)	(0.03)	(0.05)	(0.02)	(0.02)
Percent change	-17%	-10%	-18%	-3%	-2%	- .3%
Effect on income						
Log point change	-0.46	-0.25	-0.63	-0.36	-0.43	-0.23
Standard error	(0.01)	(0.02)	(0.03)	(0.04)	(0.01)	(0.01)
Percent change	-37%	-22%	-47%	-30%	-35%	-21%
Effect on income per household member						
Log point change	-0.27	-0.06	-0.48	-0.17	- 0.20	- 0.04
Standard error	(0.01)	(0.02)	(0.03)	(0.04)	(0.01)	(0.02)
Percent change	-23%	-6%	-38%	-16%	-18%	-4%

Source: GAO analysis of HRS data.

Unemployment

As shown in table 21, unemployment tended to reduce assets and income, with comparable effects for women and men. The effects did not seem to dissipate when household size was adjusted for.

- *Effect on assets.* Unemployment reduced assets for both women and men, with comparable effects for women and men. For example, among all households, the decline in assets associated with unemployment was 7 percent for women and 7 percent for men. An exception to this difference was in cases in which at least one member was 65 or over. For those individuals, the decline in household assets was only 2 percent for women and 15 percent for men.

- *Effect on income*. Unemployment reduced income for both women and men, with comparable effects for women and men. For example, among all households, the decline in income associated with unemployment was 6 percent for women and 8 percent for men.

Table 21: Unemployment Effect

	All households		Households where everyone is age 64 or younger		Households where at least one person is 65 or over	
	Women	Men	Women	Men	Women	Men
Effect on assets						
Log point change	-0.07	-0.07	-0.09	-0.07	-0.02	-0.15
Standard error	(0.02)	(0.02)	(0.03)	(0.03)	(0.07)	(0.075)
Percent change	-7%	-7%	-9%	-7%	-2%	-14%
Effects on assets per household member						
Log point change	-0.06	-0 .08	-0.08	-0.08	-0 .03	-0 .16
Standard error	(0.02)	(0.02)	(0.03)	(0.03)	(0.07)	(0.076)
Percent change	-6%	-8%	-8%	-8%	-3%	-15%
Effects on income						
Log point change	-0.09	-0.07	-0.10	-0.06	-0.13	-0.12
Standard error	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)	(0.05)
Percent change	-9%	-7%	-9%	-6%	-13%	-12%
Effects on income per household member						
Log point change	-0.09	-0.08	-0.09	-0.07	-0.14	-0.13
Standard error	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)	(0.05)
Percent change	-8%	-7%	-8%	-7%	-13%	-12%

Source: GAO analysis of HRS data.

A Decline in Health

In general, across the specifications, the effect of a decline into poor health tended to reduce assets and income, with comparable effects for women and men (see table 22). One notable difference however, were the larger estimated effects of men's poor health on assets, but only in the case where both members of the household were less than 65 years of age. Specifically, we found that for individuals living in these households, poor health in men was associated with a drop in household assets of 13 percent, but 5 percent for women.[13]

In general, the magnitude of the effect on assets was in the 10 percent range for both women and men, and is statistically significant. The effects on income are about half that magnitude, but follow the same direction as the effects on assets. There is little difference in the effects when the level of assets and income are estimated with a correction for the size of the household.

Table 22: A Decline in Health's Effect on Household Assets and Income

	All households		Households where everyone is age 64 or younger		Households where at least one person is 65 or over	
	Women	Men	Women	Men	Women	Men
Effect on assets						
Log point change	-0.09	-0.10	-0.05	-0.14	-0.06	-0.04
Standard error	(0.008)	(0.008)	(0.01)	(0.01)	(0.01)	(0.01)
Percent change	-8%	-10%	-5%	-13%	-6%	-4%
Effects on assets per household member						
Log point change	-0.09	-0.11	-0.06	-0.14	-0.06	-0.05
Standard error	(0.008)	(0.008)	(0.01)	(0.01)	(0.01)	(0.01)
Percent change	-9%	-10%	-5%	-13%	-6%	-5%
Effect on income						
Log point change	-0.04	-0.03	-0.05	-0.03	-0.03	-0.02
Standard error	(0.006)	(0.006)	(0.01)	(0.01)	(0.01)	(0.01)
Percent change	-4%	-3%	-5%	-3%	-3%	-2%
Effect on income per household member						
Log point change	-0.05	-0.04	-0.05	-0.03	-0.03	-0.02
Standard error	(0.006)	(0.006)	(0.01)	(0.01)	(0.01)	(0.01)
Percent change	-5%	-4%	-5%	-3%	-3%	-2%

Source: GAO analysis of HRS data.

[13]We tested this result by using an alternative measure of health: the extent to which there are challenges in daily living. In this case, we did not find that men's health had a larger effect.

Helping Parents Financially or with Daily Activities

As shown in table 23, the results for either helping parents financially or with basic daily activities—eating, dressing, and bathing—were not as consistently significantly negative as the other life events. In the fixed-effects regression, the effect of personal assistance did not appear to be statistically significant, while the effect of financial assistance tended to be significantly positive. It may be that when households have more assets or income they are more likely to provide assistance—which could explain these findings. There is little difference in the effects when the level of assets and income are estimated with a correction for the size of the household. To further understand these relationships, we explored the characteristics of those helping their parents with the basic daily activities of bathing, dressing, and eating. We found that only 2 percent of the sample provided both financial help and help with basic daily activities. Further, those in the labor force (i.e., working or unemployed and looking for work) were more likely to help their parents with basic daily activities than those retired or not in the labor force.

Table 23: Effects of Providing Financial Assistance or Physical Care on Household Assets and Income

	Helped parents financially		Helped parents with basic daily activities	
	Women	**Men**	**Women**	**Men**
Effect on assets				
Log point change	0.028	0.034	0.0	0.01
Standard error	(0.01)	(0.01)	(0.01)	(0.01)
Percent change	3%	3%	1%	1%
Effects on assets per household member				
Log point change	0.032	0.038	0.004	0.01
Standard error	(0.01)	(0.01)	(0.01)	(0.02)
Percent change	3%	4%	0.4%	1%
Effect on income				
Log point change	0.056	0.071	0.016	0.020
Standard error	(0.008)	(0.008)	(0.008)	(0.008)
Percent change	6%	7%	2%	2%
Effect on income per household member				
Log point change	0.059	0.073	0.013	0.018
Standard error	(0.008)	(0.008)	(0.008)	(0.008)
Percent change	6%	8%	1%	2%

Source: GAO analysis of HRS data.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Charles Jeszeck, (202) 512-7215 or jeszeckc@gao.gov

Staff Acknowledgments

Michael Collins, Assistant Director; Erin M. Godtland, Senior Economist, and Jennifer Gregory, Senior Analyst, led the engagement. In addition, James Bennett, Benjamin Bolitzer, David Chrisinger, Cynthia Grant, Jean Lee, Grant Mallie, Ashley McCall, Michael Morris, Rhiannon Patterson, Mark Ramage, James Rebbe, Douglas Sloane, Jeff Tessin, Shana Wallace, and Erin White made valuable contributions.

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Social Security Administration

Additional Information Requested by Senator Blumenthal

Trends in Early Benefit Claiming

The attached tables show the percentage of benefit awards in a particular year by the age of the person receiving benefits. For example, in 2010, 2,301,319 individuals were awarded retirement benefits. Of these, 1,189,199 or 51.7 percent were awards to individuals who were age 62 in 2010. About 15.5 percent (355,598) were awards to individuals who were age 66 in 2010.

These tables can give a general sense of patterns. For example, in 2009, the percentage of awards to 62-year olds was higher than in previous and later years, likely reflecting an increase in early retirement at the height of the financial crisis. Also, in all years, the tables show women have a higher percentage of awards at the early retirement age of 62.

These types of statistics have limitations, however, as the baby-boom generation transitions to retirement. This is because the baby-boom cohorts are so much larger in number. For example, the number of births in the United States in 1948 was about 25 percent higher than the number of births in 1944. Thus, the number of 62-year olds in 2010 (born in 1948) will be much higher than the number of 66-year olds in 2010 (born in 1944). Simply because of the size of the birth cohorts, we will observe a high percentage of awards to 62 year olds in 2010; this is why the 51.7 percent figure cannot be interpreted as the percentage of individuals who take early retirement benefits

Some research examines claiming behavior by birth cohort. That research has found that later birth cohorts are less likely to claim at the early retirement age (except for a spike at the height of the financial crisis). Further, most individuals do not take benefits as early as possible (at age 62). For example, Boston College researchers found:

> Since 1997, the cohort analysis shows that the proportion of eligible workers claiming retired-worker benefits at age 62 drops significantly for both men and women. Of those who turned 62 in 1985, 62 percent of women and 51 percent of men claimed benefits as soon as they became available. But for those who turned 62 in 2006, the comparable figures were only 48 percent of women and 43 percent of men.
>
> Source: http://crr.bc.edu/wp-content/uploads/2008/05/ib_8-7.pdf

The financial crisis led to a spike in early retirement but research by the Urban Institute indicates that has abated somewhat and the trend toward delayed filing may resume (for discussion, see http://fsp.bc.edu/fewer-claiming-social-security-right-at-62/).

Workers Claiming Retirement Benefits in 2007

AGE	Total	Men	Women
All[1]	1,794,423	940,614	853,809
62	912,888 (50.9%)	455,350 (48.4%)	457,538 (53.6%)
63	150,390 (8.4%)	80,002 (8.5%)	70,388 (8.2%)
64	196,267 (10.9%)	100,305 (10.7%)	95,962 (11.2%)
65	450,427 (25.1%)	268,608 (28.6%)	181,819 (21.3%)
66	23,453 (1.3%)	13,101 (1.4%)	10,352 (1.2%)
67	13,602 (0.8%)	6,428 (0.7%)	7,174 (0.8%)
68	9,638 (0.5%)	3,815 (0.4%)	5,823 (0.7%)
69	10,067 (0.6%)	3,418 (0.4%)	6,649 (0.8%)
70 +	27,691 (1.5%)	9,587 (1.0%)	18,104 (2.1%)

[1] Does not include Disability Insurance Benefit (DIB) conversions at full benefit retirement age (FRA), age 65. By law, DIB converts to Retirement Insurance Benefit (RIB) at FRA. In 2007, there were 241,357 DIB conversions; 133,944 men and 107,413 women.

Workers Claiming Retirement Benefits in 2008

AGE	Total	Men	Women
All[2]	2,010,892	1,052,659	958,233
62	1,031,710 (51.3%)	510,463 (48.5%)	521,247 (54.4%)
63	158,497 (7.9%)	84,507 (8.0%)	73,990 (7.7%)
64	198,681 (9.9%)	101,595 (9.7%)	97,086 (10.1%)
65	524,598 (26.1%)	313,506 (29.8%)	211,092 (22.0%)
66	32,017 (1.6%)	18,056 (1.7%)	13,961 (1.5%)
67	14,677 (0.7%)	7,856 (0.7%)	6,821 (0.7%)
68	8,896 (0.4%)	4,197 (0.4%)	4,699 (0.5%)
69	9,710 (0.5%)	3,630 (0.3%)	6,080 (0.6%)
70 +	32,106 (1.6%)	8,849 (0.8%)	23,257 (2.4%)

[2] Does not include Disability Insurance Benefit (DIB) conversions at full benefit retirement age (FRA), age 65. By law, DIB converts to Retirement Insurance Benefit (RIB) at FRA. In 2008, there were 268,105 DIB conversions; 147,482 men and 120,623 women.

Workers Claiming Retirement Benefits in 2009

AGE	Total	Men	Women
All[3]	2,416,510	1,276,605	1,139,905
62	1,284,624 (53.2%)	643,426 (50.4%)	641,198 (56.3%)
63	187,858 (7.8%)	104,277 (8.2%)	83,581 (7.3%)
64	200,272 (8.3%)	107,432 (8.4%)	92,840 (8.1%)
65	332,667 (13.8%)	188,517 (14.8%)	144,150 (12.6%)
66	326,612 (13.5%)	201,585 (15.8%)	125,027 (11.0%)
67	22,740 (0.9%)	11,045 (0.9%)	11,695 (1.0%)
68	13,895 (0.6%)	5,626 (0.4%)	8,269 (0.7%)
69	12,145 (0.5%)	4,112 (0.3%)	8,033 (0.7%)
70 +	35,697 (1.5%)	10,585 (0.8%)	25,112 (2.2%)

[3] Does not include Disability Insurance Benefit (DIB) conversions at full benefit retirement age (FRA), age 66. By law, DIB converts to Retirement Insurance Benefit (RIB) at FRA. In 2009, there were 323,456 DIB conversions; 175,724 men and 147,732 women.

NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

July 27, 2012

The Honorable Herb Kohl
The Honorable Bob Corker
The Honorable Richard Blumenthal
Senate Special Committee on Aging

Dear Senators Kohl, Corker, and Blumenthal:

I'm pleased to provide this additional information about long-term unemployment among older women and men in response to Senator Blumenthal's question at the July 25th hearing.

As I said at the hearing, long-term unemployment is a serious problem for both older women and older men. While the unemployment rates for workers 55 and older are lower than for younger workers, older women and men who lose a job are likely to be unemployed for longer periods of time. The National Women's Law Center's analysis of data released by the Bureau of Labor Statistics for June 2012 found that nearly half of all jobless women 55 and older (48.9 percent) and more than half of all jobless men 55 and older (55.7 percent) were "long-term" unemployed: that is, unable to find work for 27 weeks or more. The average duration of unemployment among jobless women ages 55 to 64 in June 2012 was 48.1 weeks; the comparable figure for men was 60.9 weeks. Workers 65 and older faced the longest average periods of unemployment: 50.8 weeks for women and 62.2 weeks for men.

For more information about employment and unemployment trends among older workers, see the detailed analysis of monthly data by AARP's Public Policy Institute, *The Employment Situation, June 2012* (July 20120), http://www.aarp.org/work/job-hunting/info-07-2012/the-employment-situation-june-2012-AARP-ppi-econ-sec.html.

A recent Urban Institute study, *Identifying Those at Greater Risk of Long-Term Unemployment* (June 2012), http://www.urban.org/publications/412621.html, finds that some groups are disproportionately more likely to experience long-term unemployment even though they are less likely to become unemployed, including older workers, women, and those with more education.

The study by GAO prepared for this Committee, *Unemployed Older Workers: Many Experience Challenges Regaining Employment and Face Reduced Retirement Security* (April 2012), http://www.gao.gov/assets/600/590408.pdf describes the economic impact of long-term unemployment, finding that "long-term unemployment can put older workers at risk of deferring needed medical care, losing their homes, and accumulating debt."

Thank you again for giving me the opportunity to testify and to provide this additional information.

Sincerely,

Joan Entmacher

Joan Entmacher
Vice President for Family Economic Security

ACLI
Financial Security...for Life.

The American Council of Life Insurers (ACLI)

Statement for the Record

Enhancing Women's Retirement Security

United States Senate Special Committee on Aging

July 25, 2012

American Council of Life Insurers
101 Constitution Avenue, NW, Washington, DC 20001-2133
www.acli.com

The American Council of Life Insurers (ACLI) is delighted that this Committee through the hearing process is shining a spotlight on the issues women face in achieving retirement security. We applaud Chairman Kohl (D-WI) and Ranking Member Corker (R-TN) for drawing attention to the matter and we are pleased to submit this statement for the record outlining the tools available to women to fulfill their goal of retirement security.

The ACLI is a Washington, DC - based trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent more than 90% of the assets and premiums of the U.S. life insurance and annuity industry. In addition to life insurance, and annuities, ACLI member companies offer pensions, 401(k)s, and other retirement plans, long-term care insurance, disability income insurance, and reinsurance.

Seventy-five million—or two out of three—American families count on life insurers' products for protection, long-term savings, and a guarantee of lifetime income when it's time to retire. Given today's economic uncertainties, the financial and retirement security these products provide has never been more important.

Women and Retirement Security

Women, on average, face unique issues in achieving the financial and retirement security needed for retirement. This is especially so since women, due to child care and other family responsibilities, are likely to spend extended periods of time away from the workplace—resulting in lower earning, less of a "rainy day fund" to prepare for the unexpected, and less time to accrue retirement savings. With less savings to rely on, women face even larger obstacles if they are faced with a disability or death of a spouse.

Employer-provided and individually purchased protection and security products have long provided women with the tools they need not only to save, but to manage life's risks. These products are unique in their ability to successfully and affordably transfer risk from the individual to a larger pool of savers or insured's.

Women and Life Insurance

Life insurance offers peace of mind through immediate financial protection for families and dependents. It enables individuals and families from all economic brackets to maintain independence in the face of financial catastrophe. This helps to relieve pressure on government entitlement programs. Whether a woman is part of a dual- or single-income household, life insurance can ease the financial burden placed on a family after an unexpected death—helping to pay such expenses as funeral costs, child care, mortgage payments, and tuition.

Despite the importance of life insurance protection, studies show that women are less likely to own life insurance. According to LIMRA International's Person-Level Trends in U.S. Life Insurance Ownership (2011), over two-fifths (43%) of women have no life insurance coverage. Of the women who have life insurance protection, the average coverage is only 70 percent of the average coverage for men: $156,000 versus $223,800.

Life insurance should not just be a consideration for married women. The 2010 U.S. Census data shows that of the 21.1 million American homes run by single parents, 15.3 million are run solely by women. Life insurance provides the critical financial protection to secure the futures of their dependents.

It is important to educate all women about the critical role life insurance plays in helping families effectively manage risk and prepare for long-term financial needs. By providing tools for self-protection and savings, life insurance is an efficient way to promote personal responsibility and foster less dependence on government programs.

Women and Retirement Savings

Many working women have access to retirement savings vehicles designed to help them to prepare for retirement. These vehicles include employer-provided retirement plans, such as traditional, defined benefit pensions, profit-sharing plans, and defined contribution plans, including 401(k)s, 403(b)s, and 457s. For workers without access to workplace plans or for those who want to supplement savings, there are individual retirement accounts (IRAs) and individual annuities.

More needs to be done to encourage coverage for and participation by women in the retirement system. Today, coverage is lower for women due to both lower levels of workforce participation and because they are more likely to be self-employed or employed by small businesses that does not sponsor a plan. Policy-makers should continue to encourage women to participate in the retirement system by expanding auto-enrollment into plans and IRAs and auto-enrolling and auto-escalating employees at higher contribution rates. We should also continue to encourage employers to expand plan coverage.

Providing access to professional investment advice and investment education would help women make better investment decisions and save more. According to recent studies *(Dreyfus Corp., National Center for Women and Retirement Research, Mutual Fund Education Alliance),* women tend avoid making investment decisions, invest too conservatively, and save less than men.

Whether covered by an employer-sponsored plan or not, encouraging women to take some of their retirement accumulations in the form of a guaranteed lifetime income payment - through an annuity - would help them achieve retirement income security. To help women understand the benefits of guaranteed lifetime income, ACLI commends Chairman Kohl and Senators Bingaman and Isakson for introducing S. 267, the "Lifetime Income Disclosure Act." This bill would require qualified retirement plans to illustrate employees' account balances as a life annuity equivalent—in addition to a lump sum in their account statements. The bill also directs the Administration to provide plans with safe harbor assumptions when converting lump sums into an annuity illustration.

Additionally, in February 2010, the Departments of Labor and Treasury initiated a joint regulatory project aimed at facilitating lifetime income. On February 2, 2012, the Department of Treasury ("Treasury") issued a set of guidance and proposed rules to expand the availability and use of lifetime income options in qualified plans and IRAs. The guidance included: a proposed rule to permit a portion of a defined contribution plan or IRA account balance to be excluded from the minimum required distribution rules when used to purchase a deferred annuity (a.k.a. longevity insurance); and a proposed rule that addresses the application of the lump sum valuation rules when a defined benefit is paid as part lump sum and part annuity. We look forward to receiving additional guidance and working with the Administration on this important issue.

Women and Annuities

Retirement today requires more planning than in previous generations. As mentioned before, women are less likely to have access to retirement plans in the workforce because they are more likely to be self-employed or employed by small businesses that do not sponsor plans. For those women who do have access to employer-sponsored plans, sources of steady retirement Income have changed as fewer and fewer workers are covered by traditional employer-provided pensions that provide a lifetime benefit. In addition, advances in medicine have resulted in increased longevity—today's retirees may spend 20, 30 or more years in retirement. Because women live longer than men, they are likely to spend more years in retirement and are at risk for outliving their savings.

For women, preparing for retirement is no easy task. Women have a lifetime of lower earnings, so their retirement income is lower, including pension benefits, 401 (k) distributions, and Social Security payments. Women are more likely to take time away from the workforce to care for children or aging parents. In fact, they spend on average 32 years in the workforce compared to the 44 years spent by men. Only eighteen percent of women age 65 or older were receiving their own pension benefits in 2000 - either as a retired worker or survivor - compared to 31 percent of men *(Women's Institute for a Secure Retirement)*.

In addition to less earnings and lower retirement income, women face another challenge: making the assets they do have last as long as they live. On average, women live five to seven years longer than men and, if married, are more likely to become widowed.

Because most women live twenty to thirty years in retirement, some of them alone, the need to encourage women to turn their retirement savings into a steady stream of income for life, through an annuity, is critical. Other than Social Security and the defined benefit system, the only means to create a guaranteed income stream in retirement is through an annuity. An annuity is an insurance contract that offers an efficient solution to what otherwise could be an overwhelming asset management task: creating a steady paycheck in retirement that cannot be outlived. To accomplish this goal, women nearing retirement should be encouraged to convert a portion of their workplace retirement savings into an annuity.

An annuity also can help women without access to workplace retirement savings plans to independently accumulate savings during their working years and then turn savings into a steady, guaranteed income stream in retirement.

Women and Long-term Care Insurance

Long-term care insurance offers critical protection against the risk of depleting savings to pay for needed care and becoming a financial burden. It is a crucial component of retirement planning. Long-term care insurance protects retirement savings from being depleted by the steadily growing costs of long-term care, and provides consumers with the dignity of choice by covering a wide range of services in a variety of settings.

Long-term care is a significant issue for women. As was mentioned earlier, women live longer than men and have higher rates of disability and chronic health problems. They are more likely to need long-term care. In fact, a 65 year-old woman has a 50 percent chance of needing nursing-home care in her lifetime; a 65 year-old man has a 30 percent likelihood of needing such care *(WSJ, "Facing the Future-Long-term Care," May, 2012).*

Not only is there high risk associated with long-term care, there is high cost. Currently, one year in a nursing home averages $77,000 and can be considerably higher depending on where you live. In 20 years, it is expected to exceed $200,000 a year *(Genworth Financial, 2012 Cost of Care Survey).* These increases will place heavy burdens on government programs, and ultimately on taxpayers. Policy-makers should continue to encourage women to plan ahead and consider long-term care insurance as a means for providing for their long-term care needs, protecting their retirement savings, and providing them with independent choices.

Since its introduction to the marketplace, long-term care insurance has evolved - plans now cover a variety of services that help women receive care inside or outside the home. Today's policies also handle the multifaceted challenges of family caregivers, from easing physical and emotional stress to reducing job disruptions. Hybrid products that link long-term care coverage with life insurance or annuities offer additional options to meet a number of financial needs.

Long-term care is available on an individual basis, or through a group plan sponsored by an employer or association. An increasing number of employers - including the federal government and more than 30 state governments - recognize the importance of long-term care insurance in retirement planning and offer it as part of their employee-benefit packages.

Women and Disability Income Insurance

As women live longer, work longer and assume more financial obligations - such as funding education and parental care, in addition to savings for retirement - it is important to foster education about how long-term disability income insurance can help them continue to support their families, maintain their independence, and avoid depleting their long-term savings for retirement should a disabling event occur.

Through disability income insurance, working women and their families can ensure bills are paid and that long-term savings for college and retirement are protected if a disabling event occurs. It also can pay for training or other assistance to help one return to work. Disability income insurance is increasingly available as part of an employee benefit package in the workplace or it can be purchased on an individual basis.

Personal Financial Protection is the Key for Women to Achieve Retirement Security

In conclusion, as women live longer lives and assume a greater role in providing resources for their families, they must equip themselves with the tools that allow them to protect their family's income and savings through life insurance, long-term care insurance, retirement savings vehicles, disability income insurance, and an annuity's guaranteed lifetime income for life. By utilizing these tools as part of a sound financial retirement plan, women can be more confident about their retirement years.

T-173

United States Senate

Special Committee on Aging

Hearing on:

Enhancing Women's Retirement Security

July 25, 2012 at 2 pm

Submitted Testimony by

Jack VanDerhei, Ph.D.

Research Director

Employee Benefit Research Institute (EBRI)

www.ebri.org

The views expressed in this statement are solely those of Jack VanDerhei and should not be attributed to the Employee Benefit Research Institute (EBRI), the EBRI Education and Research Fund, any of its programs, officers, trustees, sponsors, or other staff. The Employee Benefit Research Institute is a nonprofit, nonpartisan, education and research organization established in Washington, DC, in 1978. EBRI does not take policy positions, nor does it lobby, advocate specific policy recommendations, or receive federal funding.

Will Boomer and Gen X Women be Able to Afford Retirement at Age 65? Evidence from the 2012 EBRI Retirement Security Projection Model®

By Jack VanDerhei, Ph.D., Employee Benefit Research Institute

Introduction

A recent report by the United States Government Accountability Office (GAO, July 2012) found that women age 65 and over had less retirement income on average and had higher rates of poverty when compared to men. While this finding has important public policy ramifications for those already at conventional retirement ages, simulation analysis with respect to women younger than age 65 provides useful information for what current trends portend in terms of their future retirement income adequacy as well as what factors within the current voluntary retirement plan system may be most effective in improving their likelihood of affording retirement at age 65.

Measuring retirement security—or retirement income adequacy—is an extremely important topic. EBRI launched a major project to provide this type of measurement in the late 1990s for several states concerned whether their residents would have sufficient income when they reached retirement age. After conducting studies for Oregon, Kansas, and Massachusetts, a national model—the EBRI Retirement Security Projection Model® (RSPM)—was developed in 2003, and in 2010 it was updated to incorporate several significant changes, including the impacts of defined benefit plan freezes, automatic enrollment provisions for 401(k) plans, and the recent crises in the financial and housing markets.[1] EBRI has recently updated RSPM for changes in financial and real estate market conditions as well as underlying demographic changes and changes in 401(k) participant behavior since January 1, 2010 (based on a database of 23 million 401(k) participants). This testimony provides a comparative analysis of single males and single females in the Boomer and Gen X cohorts using EBRI Retirement Readiness Ratings™ as well as the Retirement Savings Shortfalls.[2]

EBRI Retirement Readiness Ratings™

Figure 1 compares the Retirement Readiness Ratings™ for 2003 and 2012.[3] The EBRI Retirement Readiness Ratings™ measure the percentage of simulated life paths in retirement that are at risk of inadequate retirement income.[4] A household's simulated lifepath in retirement is considered to be at-risk in the baseline version of the model if its aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures, defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income) as well as some health insurance and out-of-pocket health-related expenses, plus stochastic expenses from nursing home and home health care (at least until the point such expenses are picked up by Medicaid). The resources in retirement are assumed to consist of Social Security (status quo benefits for the baseline version of the simulation); account balances from defined contribution plans; individual retirement accounts (IRAs) and/or cash balance plans; annuities or lump-sum distributions from defined benefit plans; and net housing equity (in the form of a lump-sum distribution at the point that other financial resources are exhausted). This version of the model is constructed to simulate "basic" retirement income adequacy; however, alternative versions of the model allow similar analysis for replacement rates and other thresholds.

When the EBRI Retirement Readiness Ratings™ were simulated in 2012 for Early Baby Boomers (individuals born between 1948–1954), Late Baby Boomers (born between 1955–1964) and Generation Xers (born between 1965–1974), between 32 and 36 percent of the simulated lifepaths for retired single males were projected to lack adequate retirement income for basic retirement expenses plus uninsured health care costs. However, when the same simulations were performed for single females for these age cohorts the results were significantly worse: between 57 and 62 percent of the simulated lifepaths for retired single males were projected to lack adequate retirement.

The 2012 results are an improvement from the 2003 results: some 3-6 percentage points for single males and 2-7 percentage points for single females. The improvement over the last nine years is largely due to the fact that in 2003, very few 401(k) sponsors had implemented automatic enrollment (AE) provisions and that the participation rates among the lower-income employees (those most likely to be at risk) were quite low.[5] The Pension Protection Act of 2006 contained provisions encouraging plan sponsors to adopt auto-enrollment.

Previous research by EBRI has demonstrated that one of the most important factors contributing to retirement income adequacy for the Boomers and Gen Xers is eligibility to participate in employment-based retirement plans.[6] VanDerhei (August 2011) provides information on how the relative value of the defined benefit plan accruals impact retirement income adequacy, while Figure 2 provides similar information for eligibility in defined contribution plans for Gen Xers in 2012. In the latter case, the number of future years that workers are eligible to participate in a defined contribution plan makes a tremendous difference in their at-risk ratings. For example, according to the simulation results, single male Gen Xers with no future years of eligibility would run short of money in retirement 47 percent of the time, whereas only 13 percent of those with 20 or more years of future eligibility would run short. The magnitude of the results for single females are even more striking: single female Gen Xers with no future years of eligibility would run short of money in retirement 74 percent of the time, decreasing all the way to 25 percent for those with 20 or more years of future eligibility.

Retirement Savings Shortfalls

The aggregate deficit number, taking into account current Social Security retirement benefits and the assumption that net housing equity is utilized "as needed," is currently estimated to be $4.3 trillion for all Baby Boomers and Gen Xers.[7] However, while trillion-dollar deficits are useful in focusing attention on this problem, they do little to help policy makers understand exactly *where* these deficits are coming from.[8]

Figure 3 depicts Retirement Savings Shortfalls (RSS) by age cohort, as well as marital status and gender, for both Baby Boomers and Gen Xers. The RSS provide information on average individual retirement income deficits. These numbers are present values at age 65, and represent the additional amount that individuals would have to save by age 65 to eliminate their expected deficits in retirement (which, depending on the simulated lifepath, could be a relatively short period or could last decades). The additional savings required for those on the verge of retirement (Early Boomers) is $34,000 for single males and $65,000 for single females. Even though the present values are defined in constant dollars, the RSS for both genders increase for younger cohorts, largely due to the assumption that health care-related costs will increase faster than the general inflation rate.

While the RSS values in Figure 3 may appear to be relatively small considering they represent the sum of present values that may include decades of deficits, it is important to remember that only a fraction of the simulated lifepaths modeled were considered to be "at risk." In other words, the average RSS values represented in Figure 3 are reduced by the inclusion of simulated retirement lifepaths that will not run short of money. Looking only at those situations where shortfalls are projected, Figure 4 shows that the values for Early Boomers is $95,000 for single males and $105,000 for single females. In sum, when looking only at households with a projected shortfall, the average shortfall is larger—sometimes considerably so.

Appendix: Brief Chronology of RSPM

The original version of RSPM was used to analyze the future economic well-being of the retired population at the state level. EBRI and the Milbank Memorial Fund, working with the governor of Oregon, set out in the late 1990s to see if this situation could be addressed for the state. That analysis (VanDerhei and Copeland, 2001) focused primarily on simulated retirement wealth with a comparison to ad hoc thresholds for retirement expenditures.

Subsequent to the release of the Oregon study, it was decided that the approach could be applied to other states as well. Kansas and Massachusetts were chosen as the next states for analysis. Results of the Kansas study were presented to the state's Long-Term Care Services Task Force on July 11, 2002(VanDerhei and Copeland, July 2002) , and the results of the Massachusetts study were presented on Dec. 1, 2002 (VanDerhei and Copeland, December 2002). With the assistance of the Kansas Insurance Department, EBRI was able to create Retirement Readiness Ratings™ based on a full stochastic decumulation model that took into account the household's longevity risk, post-retirement investment risk, and exposure to potentially catastrophic nursing-home and home-health-care risks. This was followed by the expansion of RSPM and the Retirement Readiness Ratings™ to a national model and the presentation of the first micro-simulation retirement-income-adequacy model, built in part from administrative 401(k) data at the EBRI December 2003 policy forum(VanDerhei and Copeland, 2003). The basic model was subsequently modified for testimony for the Senate Special Committee on Aging in 2004 to quantify the beneficial impact of a mandatory contribution of 5 percent of compensation (VanDerhei, January 2004).

In an analysis to determine the impact of annuitizing defined contribution and IRA balances at retirement age, VanDerhei and Copeland, 2004, were able to demonstrate that for a household seeking a 75 percent probability of retirement income adequacy, the additional savings that would otherwise need to be set aside each year until retirement to achieve this objective would decrease by a median amount of 30 percent. Additional refinements were introduced in 2005 to evaluate the impact of purchasing long-term care insurance on retirement income adequacy (VanDerhei, 2005).

The model was next used in March of 2006 to evaluate the impact of defined benefit freezes on participants by simulating the minimum employer-contribution rate that would be needed to financially indemnify the employees for the reduction in their expected retirement income under various rate-of-return assumptions (VanDerhei, March 2006). Later that year, an updated version of the model was developed to enhance the EBRI interactive Ballpark Estimate® worksheet by providing Monte Carlo simulations of the necessary replacement rates needed for specific probabilities of retirement-income adequacy under alternative-risk-management treatments (VanDerhei, September 2006).

RSPM was significantly enhanced for the May 2008 EBRI policy forum by allowing automatic enrollment of 401(k) participants with the potential for automatic escalation of contributions to be included (VanDerhei and Copeland, 2008). Additional modifications were added in 2009 for a Pension Research Council presentation that involved a "winners/losers" analysis of defined benefit freezes, and the enhanced employer contributions provided to defined contribution plans at the time the defined benefit plans were frozen (Copeland and VanDerhei, 2010).

Also in 2009 a new subroutine was added to the model to allow simulations of various styles of target-date funds for a comparison with participant-directed investments (VanDerhei, 2009). In April 2010, the model was completely re-parameterized with 401(k) plan-design parameters for sponsors that had adopted automatic-enrollment provisions (VanDerhei, April 2010). A completely updated version of the national model was produced for the May 2010 EBRI policy forum and used in the July 2010 *Issue Brief* (VanDerhei and Copeland, 2010).

The new model was used to analyze how eligibility for participation in a defined contribution plan impacts retirement income adequacy in September 2010(VanDerhei, September 2010). It was also used to compute Retirement Savings Shortfalls for Baby Boomers and Generation Xers in October 2010(VanDerhei, October 2010a).

In October 2010 testimony before the Senate Health, Education, Labor and Pensions Committee on "The Wobbly Stool: Retirement (In)security in America," the model was used to analyze the relative importance of employer-provided retirement benefits and Social Security(VanDerhei, October 2010b).

In February 2011, the model was used to analyze the impact of the 2008–2009 crisis in the financial and real estate markets on retirement income adequacy (VanDerhei, February 2011).

An April 2011 article introduced a new method of analyzing the results from the RSPM (VanDerhei, April 2011). Instead of simply computing an overall percentage of the simulated life paths in a particular cohort that would not have sufficient retirement income to pay for the simulated expenses, the new method computed the percentage of households that would meet that requirement more than a specified percentage of times in the simulation.

As explored in the June 2011 *EBRI Issue Brief,* the RSPM allowed retirement-income adequacy to be assessed at retirement ages later than 65 (VanDerhei and Copeland, June 2011).

In a July 2011 *EBRI Notes* article(VanDerhei, July 2011), it provided preliminary evidence of the impact of the "20/20 caps" on projected retirement accumulations proposed by the National Commission on Fiscal Responsibility and Reform.

The August 2011 *EBRI Notes* article(VanDerhei, August 2011) evaluated the importance of defined benefit plans for households, assuming individuals retire at age 65, while demonstrating the impact of defined benefit plans in achieving retirement income adequacy for Baby Boomers and Gen Xers.

Finally, EBRI's September 2011 Senate Finance testimony (VanDerhei, September 2011) analyzed the potential impact of various types of tax-reform options on retirement income adequacy. This was expanded in the November 2011 *EBRI Issue Brief* (VanDerhei, November 2011) and a new set of survey results were added to the model in the March 2012 *EBRI Notes* article (VanDerhei, March 2012).

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Endnotes

[1] A full description of the EBRI Retirement Security Projection Model® (RSPM) is provided in Appendix A of VanDerhei and Copeland (July 2010). A chronology of its development and utilization is included in the appendix to this testimony. See VanDerhei (February 2011) for additional detail on the impact of the 2008–2009 crises in the financial and real estate markets on retirement income adequacy.

[2] See VanDerhei (October 2010) for more detail.

[3] In previous EBRI publications, the baseline version of RSPM was based on the assumption that households did not use any net housing equity to finance their retirement expenditures. However, two additional alternatives were also included in the sensitivity analysis. Under the first, each household was assumed to purchase a reverse annuity mortgage at age 65 with the proceeds from the simulated net housing equity. Under the second, households with homes at age 65 were assumed to remain in them until such point that they were no longer able to afford their simulated retirement expenses with their Social Security and defined benefit benefits (if any) after the depletion of their defined contribution and IRA balances. Although the original baseline provided information on the retirement income adequacy potential for households without relying on net housing equity, it has the disadvantage of not quantifying the recent and rather volatile changes in the real estate market. Consequently, EBRI modified its choice of baseline to the second alternative described above (net housing equity used "as needed") and is using similar scenarios in its comparison to the 2003 RSPM results.

[4] The baseline version of RSPM assumes individuals retire at age 65. However, given that an increasing percentage of current workers state their intentions to defer retirement beyond age 65 (Helman, Copeland, and VanDerhei, 2012), EBRI has recently modified RSPM to compute Retirement Readiness Ratings™ for retirement ages greater than 65. See VanDerhei and Copeland (2011) for more details.

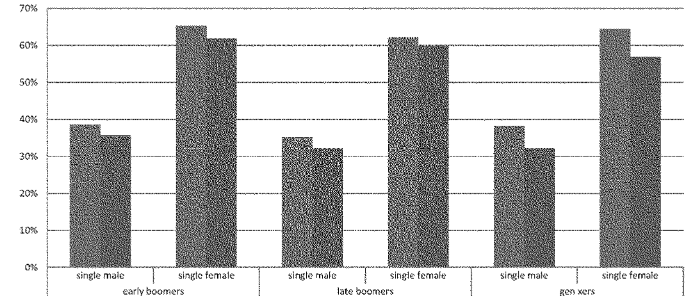
[5] With the adoption of AE in the past few years, the participation rates for lower income employees enrolled in these types of 401(k) plans have often increased to values in excess of 80 percent. See VanDerhei (April 2010) for a comparison of simulated 401(k) accumulations at retirement age under automatic enrollment vs. voluntary enrollment broken out by income quartile.

[6] While it is true that years of future participation in a defined contribution plan would have a more direct association with retirement income adequacy than the years of future eligibility for participation, the latter metric was chosen to illustrate the importance of working for an employer that sponsors such a plan. Even if an employer sponsors a defined contribution plan, eligible employees may choose not to participate for some or all of the years that they are eligible. The distinction between these two measurements will be explored in more detail in a future *EBRI Notes* article.

[7] This number is somewhat smaller than the $4.6 trillion reported in VanDerhei (October 2010); however, the baseline assumptions used in the 2010 analysis did not provide for the utilization of net housing equity to improve retirement income adequacy. When the 2012 analysis is repeated with the same assumptions as used in 2010, the aggregate deficit actually increases to $4.8 trillion.

[8] Unfortunately one of the most significant components of Retirement Savings Shortfalls (RSS) comes from an exposure that faces most retirees but very few choose to actively address. VanDerhei (October 2010) provides a first-order approximation of the impact of the stochastic nature of the nursing home and home health care expenses on the RSS values by age cohort, gender and marital status. Adding this nursing home and home health care expense increases the average individual RSS for married households by $25,317. Single males experience an average increase of $32,433 while single females have an increase of $46,425. A precise evaluation of the impact would involve a comparison of the values supplemented with the premiums required to fully insure the financial consequence of nursing home and home health care expenses. For an example of this comparison with a different output metric, see VanDerhei (2005).

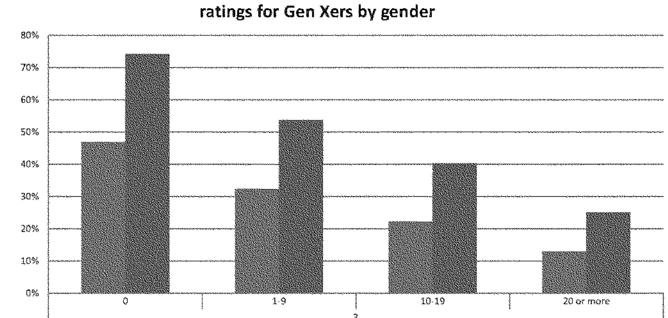
Figure 1: Improvement of at-risk* ratings from 2003-2012 by age cohort and gender



	early boomers		late boomers		gen xers	
	single male	single female	single male	single female	single male	single female
2003 lsd	39%	65%	35%	62%	38%	64%
2012 lsd	36%	62%	32%	60%	32%	57%

Source: EBRI Retirement Security Projection Model,® Version 120201.
* An individual is considered to be at-risk in this version of the model if their aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income) and some health insurance and out-of-pocket health-related expenses, plus stochastic expenses from nursing home and home health care expenses (at least until the point they are picked up by Medicaid). The resources in retirement will consist of Social Security (either status quo or one of the specified reform alternatives), account balances from defined contribution plans, IRAs and/or cash balance plans, annuities from defined benefit plans (unless the lump-sum distribution scenario is chosen), and net housing equity (in the form of a lump-sum distribution). This version of the model is constructed to simulate "basic" retirement income adequacy; however, alternative versions of the model allow similar analysis for replacement rates, standard-of-living and other thresholds. For additional detail, see: VanDerhei, J., Copeland, C. (July 2010). The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects. EBRI Issue Brief.

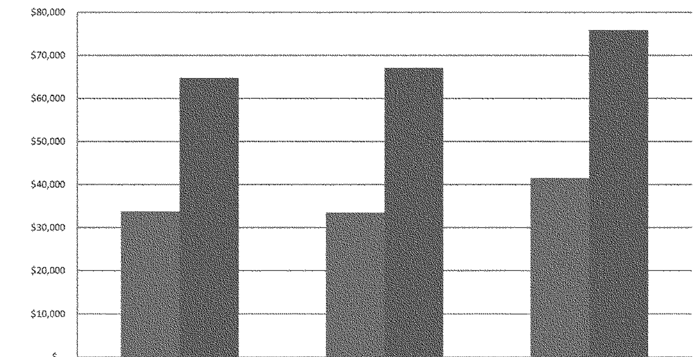
Figure 2: Impact of future years of 401(k) eligibility on 2012 at-risk* ratings for Gen Xers by gender



	0	1-9	10-19	20 or more
	3			
single male	47%	32%	22%	13%
single female	74%	54%	40%	25%

Source: EBRI Retirement Security Projection Model,® Version 120201.
* An individual is considered to be at-risk in this version of the model if their aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income) and some health insurance and out-of-pocket health-related expenses, plus stochastic expenses from nursing home and home health care expenses (at least until the point they are picked up by Medicaid). The resources in retirement will consist of Social Security (either status quo or one of the specified reform alternatives), account balances from defined contribution plans, IRAs and/or cash balance plans, annuities from defined benefit plans (unless the lump-sum distribution scenario is chosen), and net housing equity (in the form of a lump-sum distribution). This version of the model is constructed to simulate "basic" retirement income adequacy; however, alternative versions of the model allow similar analysis for replacement rates, standard-of-living and other thresholds. For additional detail, see: VanDerhei, J., Copeland, C. (July 2010). The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects. EBRI Issue Brief.

Figure 3: 2012 unconditional RSS* numbers by age cohort and gender



	early boomers	late boomers	gen xers
single male	$33,704	$33,420	$41,529
single female	$64,749	$67,057	$75,827

Source: EBRI Retirement Security Projection Model,® Version 120201.
*The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65. For additional detail, see: Jack VanDerhei, Retirement Savings Shortfalls for Today's Workers, October 2010, Vol. 31, No. 10, EBRI Notes

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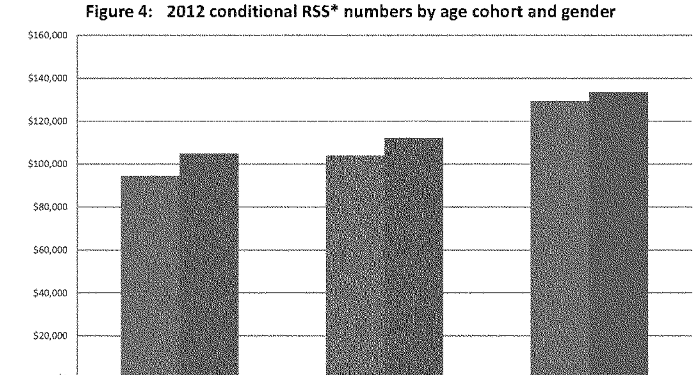
Figure 4: 2012 conditional RSS* numbers by age cohort and gender



	early boomers	late boomers	gen xers
single male	$94,509	$103,918	$129,398
single female	$104,799	$112,120	$133,349

Source: EBRI Retirement Security Projection Model,® Version 120201.
*The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65. For additional detail, see: Jack VanDerhei, Retirement Savings Shortfalls for Today's Workers, October 2010, Vol. 31, No. 10, EBRI Notes

Written Statement of
Allison Herwitt
Legislative Director
Human Rights Campaign

To the
Special Committee on Aging
United States Senate
Hearing on Enhancing Women's Retirement Security
July 25, 2012

Mr. Chairman and Members of the Committee:

My name is Allison Herwitt, and I am the Legislative Director for the Human Rights Campaign, America's largest civil rights organization working to achieve lesbian, gay, bisexual and transgender (LGBT) equality. By inspiring and engaging all Americans, HRC strives to end discrimination against LGBT citizens and realize a nation that achieves fundamental fairness and equality for all. On behalf of our over one million members and supporters nationwide, I am honored to submit this statement into the record for this important hearing on ways to enhance women's retirement security.

Women of all ages are at an increased risk for economic insecurity and poverty than men. This risk only increases as women age and retire. In fact, 60% of elderly women do not have enough income to cover basic, daily expenses and elderly men report incomes 75% higher than elderly women. Elderly women report a median income of $14,000 per year while the median income of older women of color lags even further behind at $12,000 per year.[1] This gender income gap is the result of years of gender pay inequality caused by occupational segregation, pay inequality, and increased caregiving responsibilities that take women out of the workforce. A lifetime of lower earnings also results in lower retirement savings or pensions, and drastically lower social security benefits.

This stark gender gap is felt acutely by older lesbian and bisexual women and couples. There are an estimated 1.5 million LGBT seniors in America today. By 2030, this number is expected to double.[2] Lesbians over the age of 65 are twice as likely to be living in poverty as heterosexual married couples.[3] Older African American lesbian couples have the highest incidence of poverty

[1] *Doing Without: Economic Insecurity and Older Americans*, March 2012. Wider Opportunities for Women (WOW). Available at: http://www.wowonline.org/documents/OlderAmericansGenderbriefFINAL.pdf.
[2] *Improving the Lives of LGBT Older Adults*, 2010. Services and Advocacy for Gay, Lesbian, Bisexual and Transgender Elders (SAGE) and the Movement Advancement Project. Available at: http://www.sageusa.org/specialevents/home.cfm?ID=71.
[3] *Poverty in the Lesbian, Gay, and Bisexual Community*, March 2009. Randy Albelda, M.V. Lee Badgett, Alyssa Schneebaum,, Gary J. Gates; The Williams Institute. Available at: http://williamsinstitute.law.ucla.edu/wp-content/uploads/Albelda-Badgett-Schneebaum-Gates-LGB-Poverty-Report-March-2009.pdf.

of all couples.[4] After living a lifetime experiencing discrimination based on sex and sexual orientation, these lesbian and bisexual women are increasingly vulnerable and dependent upon federal benefits like Social Security.

The Social Security system was designed as a safeguard against poverty and to ensure that older Americans can continue to cover basic expenses as they age. Spousal Social Security benefits provide much needed financial support for families when a spouse leaves the workforce or passes away. Despite the severe and well-documented need, same-sex couples are denied this basic safeguard and are instead forced to navigate continued economic discrimination at the hands of the federal government.

Today more than 140,000 same-sex couples have formalized their relationships under state law.[5] Among these are 50,000 same-sex couples who have legally married under state law. According to recent Census data at least half a million couples live completely unrecognized across the country in long-term, committed relationships.[6] Although same-sex couples can marry in six states and the District of Columbia, these couples continue to go unrecognized by the federal government and in many states. Even legally married same-sex spouses are considered legal strangers for the purposes of Social Security and other federal benefits related to retirement.

This results in the denial of all benefits regardless of the length of the relationship, the number of children in the household or legal recognition of the marriage on the state or local level. This financial loss is compounded for families whose children are also not recognized. As the baby boomer generation ages over the next ten years, the number of LGBT older adults is also expected to grow exponentially. The routine denial of federal protections and benefits based exclusively on sexual orientation will put this vulnerable population at an even greater risk of isolation and poverty.

Thank you for the opportunity to submit this testimony. As you consider the issue of women's retirement security, I hope you will keep in mind the significant challenges facing lesbian and bisexual women and their families as they age and leave the workforce. We urge Congress to take tangible steps to begin to address these inequalities by ensuring that lawful marriages between same-sex couples are recognized by the federal government, and that LGBT families benefit equally from vital Social Security safeguards. Together we can improve the lives and outcomes for every woman facing retirement today.

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[4] *Id.*

[5] *Census Snapshot 2010*. The Williams Institute. Available at http://williamsinstitute.law.ucla.edu/wp-content/uploads/Census2010Snapshot-US-v2.pdf.

[6] *American Community Survey Briefs: Same-Sex Couple Households*, September 2011. U.S. Census Bureau. Available at: http://www.census.gov/prod/2011pubs/acsbr10-03.pdf.