TESTIMONY BEFORE THE SENATE SPECIAL COMMITTEE ON AGING

Challenges Facing Women in Retirement

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Many would say that inequities still remain in the way Social Security treats women. A woman who works outside the home and qualifies for half of her husband's retirement benefit will pay Social Security payroll taxes week after week, decade after decade, but she will receive benefits no higher than those received by another woman who is not in the work force and pays no payroll taxes at all. She might as well take those tax dollars, including the payroll taxes paid by her employer – a total of roughly one-eighth of her income—and start a bonfire.

No one this side of the Taliban would propose a special tax levied only on working women, as a penalty for working outside the home. Yet that is the effect of this Depression-era provision of the nation's retirement system. Six of every ten women pay a huge amount of Social Security taxes, usually more than they pay in income taxes, and receive no added benefits. I believe that a critically needed redesign of the Social Security system could remedy these antiquated criteria.

The Graying of America has begun in earnest. It is both good news and bad news that we are all living longer. Annually a new city the size of Boston is created and populated by persons over age 65. In 2000 we reached the mark of 100,000 persons over age 100. Soon the entire Nation will look like the State of Florida. And women retirees are at the forefront.

Women reaching age 65 in 2000 are expected to live, on average, an additional 19.1 years compared to 15.7 years for man. Life expectancy rates at age 65 are anticipated to increase to 20.3 years for women and 17.3 for men in 2030.

The fastest growth will come among the numbers of the so-called old-old, defined as persons who are over age 85, and who are the most vulnerable. Their numbers will increase significantly. From 1995 to 2010, this population is expected to grow by 56 percent, as compared with 13 percent for the population aged 65 to 84. In subsequent decades, especially between 2030 and 2050, the 85-and-over age group will grow sharply as the baby-boom cohorts age. The 85-and-over age group is expected to increase from 3.6 million in 1995 to 5.7 million in 2010, to 8.5 million in 2030, and to 18.2 million in 2050.

Thus, while the expected increase from 2010 to 2030 is less than 50 percent, the increase from 2030 to 2050 is 116 percent. The cumulative growth in the 85-and-over population from 1995 to 2050 is anticipated to be more than 400 percent!

This age structure of future populations will affect the social and economic condition of the Nation, in particular as regards support for the economically dependent classes in our population.

At the same time that our demographics are changing significantly, our elderly population faces a changing social environment that can become a serious detriment to their Golden Years. Author Mary Pipher writes in Another Country:

Mr. Chairman, I appreciate the opportunity to appear before you today to present my views on challenges facing women in retirement, and to suggest some possible reforms. When I served as Assistant Secretary of Human Services and as Commissioner of Social Security during the 1980s, I was responsible for some of the most important federal programs for retirees, from meals on wheels to Social Security benefits. These programs remain very important today, and represent most of the nearly 50% of the entire federal budget which is dedicated to persons over the age of 65.

My comments are based on my federal and state service experiences with programs for the elderly, as well as my current consulting in the entitlement, health care and financial industries. I am also a Certified Senior Advisor and shortly expect to become a Certified Financial Planner.

Issues related to Americans' pensions and retirement are discussed in several congressional venues. I want to commend the efforts of the Senate Special Committee on Aging to foster a discussion of these many important, and often nettlesome, issues. The aging of our society has begun to impact all of our social institutions, from education and family to business and government.

I would like to take this opportunity to review the current state of women in retirement today and to talk about the female retiree of tomorrow. I would also like to present my suggestions as to actions that can be taken by both the public and private sectors to help address the challenges faced by women in their older years.

Women in Retirement Today

Some 90% of all elderly are Social Security beneficiaries. According to the Social Security Administration, women represent 58% of all retiree beneficiaries and 71% of beneficiaries age 85 and older. For unmarried women, including widows, age 65 and older, Social Security comprises 51% of their total income. In contrast, Social Security benefits comprise only 37% of unmarried elderly men's retirement income and only 34% of elderly couples' income. Seventy-four (74%) of unmarried elderly women depend on Social Security for at least half of their income; 26 % of unmarried elderly women depend on it for their only source of income. However, the benefit formula does provide a higher proportion of pre-retirement earnings to lower earning workers who are more often women. But, without Social Security, half of elderly women would meet the government's definition of poor.

Last week, the House of Representatives passed reforms that, if they become law, will adjust Social Security to help widows and divorced women who fall through some cracks in the system. Over 120,000 women are expected to see enhancements in their benefits through the *Social Security Benefit Enhancements for Women Act of 2002* that improves fairness and updates eligibility requirements for some disabled widows and divorced spouses.

> Many older people are living in a world designed for young people. They can't drive, walk through shopping malls or airports, or deal with rushed doctors in managed care systems. Many can't handle stairs, small-print books, or menus in darkened restaurants. They have access to expensive and sophisticated medical care that prolongs their lives, but many must sacrifice their savings to afford it…. Modern technological advances, such as dialysis and organ replacement surgeries, keep people alive but create chronic problems of their own. Some people live to be more than a hundred, but they often outlive their support systems, neighborhoods, and bank accounts.

How can any of these factors which influence one's retirement years be changed for the better? Will tomorrow's retirees be any different and, for many, have fewer financial woes? How can we educate our society to depend upon themselves, not federal programs, to the best of their ability, to provide the majority of their retirement income?

Women in Retirement Tomorrow

Women in the workforce today are different than their parents. Many have access to 401(k) plans and other pension options. Some 42% of America's investors are female. Women are developing an understanding of financial options available to them. They are coming to appreciate how the differing lifespans of men and women affect womens' finances. (Today, the average age of widowhood is 56, and 80% of women were not poor before they were widowed.)

They are also beginning to learn that they should plan on needing 75% of pre-retirement income upon their retirement, and that they will probably want to continue to work (for income) after reaching the standard retirement age.

On average, corporate pensions are expected to comprise 20-25% of retirement income. Social Security benefits alone are not sufficient to provide an acceptable lifestyle for most women. Personal savings are absolutely necessary.

With the Personal Earnings and Benefit Estimate Statement from Social Security which I initiated – now simply called the Social Security Statement -- all workers now have knowledge about their expected benefits and, I hope, clear evidence in black and white that Social Security is not meant to be one's sole source of post-employment income.

I hope that people also understand that no one is keeping their payroll taxes in a shoebox in Baltimore waiting for them. Rather, their children, the workers of tomorrow, will be paying their Social Security benefit. Americans need to understand that, to the best of their ability, they must take the primary responsibility to provide for themselves in their Golden Years.

I believe that today's workers are becoming more educated about the role of Social Security and about the need to increase their personal retirement assets, though there is certainly considerable room for further financial education.

A concern that is beginning to surface among the retirees of tomorrow is the future financing of public retirement programs. We all know that Social Security's financial future, under current law, is clearly unsustainable. Medicare also faces the problem of a growing population of beneficiaries relative to taxpayers. The baby boom generation, which currently pays more than 60% of all taxes, will begin retiring in just nine years. Both Social Security and Medicare face a dim future. But Medicare's problems are made worse by two additional factors: rapidly expanding medical care technology and increased medical care utilization.

If we continue on the present course, by the time today's college students reach retirement age, the tax burden created by Medicare will have grown from the current level of about 5.35% of payroll to almost 14%. In order for these students to receive their own benefits, future workers – most of whom are not yet born – will have to pay one of every seven dollars they earn just to cover medical bills for the elderly.

This is a massive transfer of wealth from the young to old, from the worker to tomorrow's retiree. And, when you add the cost of nursing home care that is utilized by 1/3 of those over 85, the fiscal situation becomes even bleaker. Two-thirds (2/3s) of those patients will be Medicaid recipients. By 2030, the growth of state Medicaid budgets will quadruple. Today, Medicaid represents 25% of state budgets. In the future, states will pay as much for Medicaid as they pay today for all state services.

Proposed Actions

These fiscal realities, both personal and public, can be addressed. Following are suggested actions:

1. Financial education

Efforts by the financial services industry to educate workers about savings and investments have been successful but not everyone is listening.

A "Personal Finance" course should be required before every high school student can graduate. It should include not only an overview of Social Security and Medicare, but also taxation, budgeting, insurance, and debt. A uniform curriculum would have a life long benefit.

The financial industry should continue to target and educate women, not just regarding investment management but also Social Security and Medicare and the likelihood of out-living one's resources. Age 60 is too late to remedy a lack of savings, unless one wins the lottery. Financial education is the most important contribution the financial industry can make. Some argue that the financial industry, from investment managers to insurance salespersons will present biased information. That is possible but I believe that most consumers can differentiate a sales pitch from education. Perhaps the industry should consider a Good Housekeeping Seal of Approval from the financial planning association or Consumer Reports.

2. Retirement savings incentives

Though many new tax incentives have been enacted by Congress over recent years, there are additional incentives that would have a positive impact upon retirement financing.

Congress should consider increasing the maximum contribution to an Individual Retirement Account. Recent legislation did increase contributions and allowed for "catch up" contributions. But why not increase the contribution limit to even more than the $5,000 allowable in 2008? Congress should consider abolishing the cap entirely so that the younger baby boomers can contribute as much as possible, as soon as possible, to their IRAs.

Financial planners with whom I have spoken ask for simplification of all the retirement regulations. The complexity of trusts, 401(k) investments, pension plans, and Roth or standard IRAs is often enough to discourage any saver. A simple and useful savings incentive, in addition to an IRA, would be to allow tax-free interest on passbook savings accounts up to a deposit limit of at least $50,000. Persons with conservative investment approaches as well as the beginner saver would welcome this option. Though this would certainly not replace the need for additional resources in retirement, workers at all income levels understand and trust banks.

3. Social Security 101

Social Security is the most complex program ever created. Compounding the public's confusion is the fact that Social Security payroll taxes have been described falsely as "contributions" invested in each worker's name by the federal government. We have a critical need for straightforward education about the limits of Social Security, about the manner in which it transfers income from workers to retirees, about its insurance component, and about its dim fiscal future.

4. Social Security modernization

A modernization of the Social Security program is absolutely essential to the future solvency of the program and the receipt of benefits by tomorrow's retirees. As many have testified before various Congressional committees, and as proposed by the President's Commission to Strengthen Social Security, Social Security reform is necessary and should be tackled as soon as possible.

A new program would preserve the current system for those near or already retired. Personal retirement accounts that are part of Social Security should be funded by allowing workers to allocate a portion of their payroll taxes to them and, most importantly, individual workers should be able to use Social Security to build a nest egg that can be used to increase their retirement income or to build a better financial future for their families.

Harvard professors Martin Feldstein and Jeffrey Liebman, economic advisors to Presidents Reagan and Clinton respectively, have analyzed one plan allowing for Personal Retirement Accounts (PRAs) as part of Social Security. Using data from thousands of actual workers, they have determined that such a plan could cut the poverty rate for retirees in half.

According to Feldstein and Liebman, 95% of the people, including vast majorities in all demographic groups, would benefit. The retirement poverty rate for married women would fall by one-third. For single, widowed, and never married women the poverty rate would fall by nearly two-thirds. For early widows and divorcees, it would fall by more than two-thirds, from 46% to 15%.

Social Security reform that includes Personal Retirement Accounts will make it easier for women to accumulate financial assets, to escape poverty, and, in many cases, to leave a legacy for their families.

5. Medicare reform

I have briefly discussed the dire fiscal situation of Medicare. It is a program that no one is particularly satisfied with. The "premium support" plan proposed by Senators Breaux and Frist would address comprehensive Medicare reform and offer choice for future retirees, similar to the current Federal Employees Health Benefit Program. Today and tomorrow's seniors fully understand that changes in the Medicare system are necessary.

So do the Medicare trustees, who, in their 2002 report, declared that:

> Given the past and projected cost of SMI [Supplementary Medical Insurance, or "Medicare Part B"], we urge the nation's policymakers to consider effective means of controlling SMI costs in the near term. For the longer term, the Administration and the Congress should work together to develop legislative proposals to address the large increases in SMI costs associated with the baby boom attaining eligibility age at the same time that they address the HI [Hospital Insurance, or Medicare Part A] cost increases caused by the aging of that generation.
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> The projections shown in this report continue to demonstrate the need for timely and effective action to address the financial challenges facing Medicare – both the remaining financial imbalance facing the HI trust fund and the continuing problem of rapid growth in SMI expenditures. We believe that solutions can and must be found to ensure the financial integrity of HI in the long term and to provide effective means of controlling SMI costs. Consideration of further

reforms should occur in the relatively near future. The unexpectedly favorable conditions resulting in the anticipated HI trust fund surpluses over the nest two decades could change, and deficits could recur sooner than projected. In addition, the sooner the solutions are enacted, the more flexible and gradual they can be. Finally, the early introduction of further reforms increases the time available for affected individuals and organizations – including health care providers, beneficiaries, and taxpayers – to adjust their expectations.

The Congress should move quickly in the direction of comprehensive Medicare reform.

Conclusion

2002 is not 1935. Our society has changed, and is continuing to change.

We are living longer, and we are healthy and active longer. In 1935, age 60 was considered old; now it's just late middle age. We haven't even begun to deal with the implications of the Graying of America -- how it will affect all our social institutions, from education to the family to the economy to the government.

We must also deal with changes in the structure of the family. Once upon a time, many families were made up of three generations of people living together. Today, far more people, including seniors, are living alone, and far more seniors are apart from their families.

How do these changes in society affect seniors? What changes are necessary in Social Security and Medicare?

One thing is clear: the longer we live, and the more independent we are in old age, the less we must rely on Social Security and Medicare for support.

Social Security's creators never intended for older Americans to be as dependent on so-called entitlements, on transfers of income from other citizens, as they are today. Seniors were meant to have savings and investments and to have families who would care for them as they cared for their children. Government policies have made the "floor of protection" the only resource for many seniors.

Congress should ask: What can be done to promote *individual* responsibility for retirement? What can be done to empower people, through education and economic opportunity, to provide for themselves whenever possible? How can our entitlement programs be made more affordable to the hard-working taxpayers of this country? And how can they be reformed so that they continue to provide a safety net and more for generations to come?

The answers to those questions are the key to retirement security for the senior citizens of today, tomorrow, and the day after tomorrow.