

**U.S. Senate Special Committee on Aging
Hearing on Women's Retirement Income**

Wednesday, March 15, 2006

**Testimony by the
Women's Institute for a Secure Retirement (WISER)**

**Prepared By
Cindy Hounsell, President**

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President, Women's Institute for a Secure Retirement
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Introduction

Chairman Smith, Senator Kohl, distinguished members of the Committee, thank you for inviting me to discuss the issue of closing the retirement income gap for women in the United States.

My name is Cindy Hounsell. I am president of the Women's Institute for a Secure Retirement (WISER), a nonprofit organization dedicated to ensuring the security of women's retirement income through outreach, partnerships, and policy advocacy.

WISER commends the Committee for examining the unique challenges faced by women in preparing for and managing their retirement years. My testimony will briefly cover the reasons women face dramatic economic insecurity in retirement, and will offer recommendations for actions that individuals, employers and policymakers can take to make sure that women have access to employer-sponsored plans, access to spousal benefits and that the holes are plugged to mitigate the risks of losing retirement income along the life-course.

A Coming Crisis

As you are well aware, much attention has been paid to the retirement income insecurity of American workers generally. The issues faced by women in particular are compounded by a number of factors, the result of which paints a startling post-retirement picture for millions of women who have worked their entire lives in one capacity or another.

The Reasons Women Face Retirement Income Insecurity

The fundamental issues are these: women work fewer years, earn less, live longer and are likely to live alone in old age, which is highly correlated to poverty. Women must plan for a longer retirement with less income — the median income for women age 65 and older is only 57 percent of men in that age group. This should not come as a surprise — since the retirement system is based on what workers earn — so women are left with inadequate pensions and savings. The result is that women must rely too heavily on Social Security as an income source in retirement. Women, along with their male counterparts, tend also to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women need the best information available to ensure that they do not make financial mistakes; this information should be targeted to women as spouses and caregivers, as well as to women employees.

Family Responsibilities Relate to Working Fewer Years

Women continue to serve as their families' primary care givers for both children and older parents, and as a result, are more likely to work part-time in jobs without benefits or take time out of the workforce. The Social Security Administration finds that among new retired-worker beneficiaries, women average 13 years of zero earnings since age 22. This is on average 13 fewer

years to earn a pension if one is even available; 13 fewer years to climb the ladder toward better jobs and better pay; and 13 fewer years to put money away through a defined contribution plan or IRA. Every time a career is interrupted, the ladder toward better jobs and better pay must be re-established when a woman rejoins the labor force. She loses not only time but often must start over after taking time off.

Other Economic Consequences of Family Caregiving

Since caring for the family is not recognized in this country as an economic contribution, women lose out by bearing the main share of this responsibility. Research shows that the economic consequence for single women who care for their elderly parents is a likelihood of life in poverty: caregivers are 2.5 times more likely than non-caregivers to live in poverty.¹

For married women, a divorce or widowhood is also a threat to economic security. In 2003, 12.2 percent of men and 15.9 percent of women in their early 60s were divorced. With this trend expected to continue, there is not just a decline in a woman's standard of living, but the likely loss of future retirement benefits. For example, under a defined benefit pension plan, a married woman has a legal claim on her husband's benefit. With traditional pensions on the wane, and defined contribution plans on the rise, this safeguard is stripped away: married women currently have no legal right to control how 401(k) plan benefits are paid.²

Married women who rely on their spouse's benefits must be educated about the requirements of their spouse's retirement plans. There are a large number of inconsistencies among plans that dramatically affect widows. Women can find themselves falling through the cracks at the worst possible time in their lives. It is time for Congress to introduce a separate bill and fix this once and for all. Some of these "fixes" have been introduced again and again since fellow panelist, the Honorable Barbara Kennelly, first introduced her retirement bills in the House of Representatives.

Earning Power

Women have joined the labor force in record numbers, have many more opportunities and work in many different fields, but there is still a substantial pay difference between men and women. Women are paid less than men in almost *every* occupational classification for which data are available. Data through 2004 show full-time working women in the aggregate earn 77 cents for every dollar earned by a man.³ At the same time that women began to increase their workforce participation, there was a trend toward greater out-of-pocket payment for both health benefits and for retirement savings plans such as 401(k)s and 403(b)s.

The figures on net worth tell the story: in 2001, married households had a median net worth of about \$136,000, while households headed by single women had a net worth of about \$29,500.⁴

¹ Donato, Katharine and Wakabayashi, Chizuko: *Women Caregivers are More Likely to Face Poverty*, Sallyport, Magazine of Rice University Vol., 61 No.3. Spring 2005.

² Munnell, Alicia and Steven A. Sass: *401(k) Plans and Women: A "Good News/Bad News" Story*. Just the Facts on Retirement Issues, Number 13. Center for Retirement Research at Boston College. January 2005.

³ US Census Bureau: *Income, Poverty, and Health Insurance Coverage in the United States: 2004*, p.5. August 2005.

⁴ Schmidt, Lucie and Purvi Sevak: *Gender, Marriage, and Asset Accumulation in the United States*. University of Michigan Retirement Research Center Working Paper WP 2005-109. December 2005.

Even when controlling for variables like position in the life cycle, education, inheritance and family earnings, the wealth gap remains.

Employee Benefits

Only 53 percent of women employees participate in an employer-sponsored pension plan.⁵ Aside from lower earnings which means less access to plans, women are twice as likely to work part-time, and part-time workers are less likely to have retirement plans or they work at jobs that do not offer retirement plans. That said, if a woman does work for an employer with a tax deferred savings plan—such as a 401(k) or 403(b)—she is less likely than a man to contribute to it, largely because she earns less.

Reliance on Social Security

Social Security is the predominant source of retirement income for millions of older women. In fact, women make up 57 percent of adult beneficiaries.⁶ For one in four older women, Social Security is the only source of income in their retirement. Without Social Security, the poverty rate for women would be significantly higher, increasing from about 12 percent to more than 50 percent.⁷ The proportion of people aged 65 and older in poverty decreased from 35 percent in 1959 to 10 percent in 2003, the decline is mostly due to the support of Social Security. The most important thing that can be done for women is to strengthen the Social Security system to make sure that it continues to take women's lives into account and that it continues to meet the needs of low to moderate income workers.

Minority Women

Social Security is the only source of retirement income for 59 percent of single black women and 53 percent of single Hispanic women over age 65. The reasons why minority women fare poorly in retirement are lower earnings, employment patterns, caregiving responsibilities and marital status. WISER's report, *Minority Women and Retirement Income: Your Future Paycheck* documents the poverty rates: for single black women over age 65 it is 39.6 percent and for single Hispanic women it is 40.8 percent – twice the rate of white women. Any future reforms to the nation's retirement systems must consider the impact on low-income minority women.

Longevity

It is well established that women tend to live longer than men. The problem with living longer is that women's average income after the age of 65 is only about half that of men's. In fact, the median retirement income in 2004 for women was \$12,080 compared to men's income of \$21,102.⁸

⁵ Beedon, Laurel and Ke Bin Wu: *Women Age 65 and Older: Their Sources of Income*. AARP Public Policy Institute. October 2005.

⁶ Institute for Women's Policy Research: *Six Key Facts on Women and Social Security*. IWPR Fact Sheet #D462. May 2005.

⁷ AARP: *Women and Social Security: What You Should Know*. Source: www.aarp.org/states/wv/wv-news/a-2004-10-06-wv-wome.

⁸ U.S. Census Bureau: Housing and Household Economic Statistics Division Revised January 13, 2006.

With living longer comes the very real prospect of living alone and needing care. In 2000, only 40 percent of older women were married, compared to 74 percent of older men. Older women living alone are much more likely to be poor. Another well known fact is that the age 85 + group is expected to double over the next three decades — the group most likely to be living in poverty. Again, it is no surprise that after age 70, nursing home entry causes married women to lose one third of their wealth while single women lose about 60 percent of their wealth.

The numbers are daunting and the need for a discussion of long-term care as part of the financial discussion of retirement is long overdue. Many of the individuals who live to these older ages, particularly those who live after age 80, will need long-term care. Often when one member of a couple requires long-term care in a nursing home, it is likely that the survivor will be impoverished.

The demographics of older Americans points to the importance of women's retirement security:

- At 65 and older, there are 6.2 million more women than men.
- At ages 75 and older, there are 4 million more women than men.
- At 85 and older, there are 1.8 million more women than men. This amounts to 71 percent of the 85 and older population.⁹

Financial Knowledge

There is ample evidence that Americans lack financial knowledge, and that low financial knowledge is correlated to investing in an overly conservative way. This results in lower rates of return over time, and reduces the amount of savings set aside for retirement.

Women and men both suffer the consequences of being overly conservative in financial decisions. A recent study shows that, when controlling for age, income and educational attainment, women and men appear to make similar financial decisions.¹⁰ Therefore, financial education for all Americans — women and men alike — is an ever-growing need that requires more resources to address.

At WISER, we know first-hand the gaps in financial knowledge among women. One of WISER's key initiatives is the program funded by the Administration on Aging—the National Women's Resource Center and Program on Women's Education for Retirement, also known as the POWERCenter. The Center's primary goal is to educate the most women we can possibly reach with information that can assist in retirement planning, and provide average and low-income women with the opportunity to take the first step toward controlling their financial futures. We have directly reached more than 25,000 women through our workshops and outreach with our publications. WISER's strength is providing women with core financial knowledge that encourages them to make retirement planning a priority in their lives. Women need to learn about their health and retirement benefits at work or the implication of the lack of such benefits, the financial implications of providing care for children, parents and spouses and the risks of

⁹ He, Wan, Manisha Sengupta, Victoria A. Velkoff, and Kimberly A. DeBarros: U.S. Census Bureau, Current Population Reports, P23-209, *65+ in the United States: 2005*, U.S. Government Printing Office, Washington, DC, 2005.

¹⁰ Papke, Leslie E: *Individual Financial Decisions in Retirement Savings Plans: The Role of Participant-Direction*. Journal of Public Economics, 88(1-2): 39-61.

longevity. Women are grateful for the information and sometimes just call and thank us for helping them avoid disaster. But this program needs to be replicated around the country and while at WISER we do what we can and work with many organizations, our funding is limited.

What Policymakers Can Do

As the distribution of wealth in the United States is so highly skewed — with a large percentage of total wealth held by a small percentage of the population, it is important for Congress to take steps that will benefit a larger number of moderate income workers. Many of the incentives in the retirement system are not being utilized by a majority of workers. In fact, the number of people who contribute the maximum to their 401(k) plans is barely 11 percent of all workers and the number who contribute to IRAs is even less.

It is important for policymakers to take several steps that will help women to access benefits and to mitigate the risks that prevent them from attaining greater retirement security.

Social Security

As the mainstay of support for women, the Social Security program has helped to protect many women from outright poverty in old age. Any future changes to the program should retain the income support features on which low and moderate income Americans rely most heavily. Social Security could be improved for women by:

- Providing credits for years devoted to care giving.
- Changing divorce benefits to make sense for two-earner families, individuals with time in and out of the labor force and to recognize earlier and more frequent divorce. The 10 year rule requirement should be changed to seven years.
- Changing widow benefits to make sense for a two-earner family.

Employment-Based System

Among improvements to the private employment-based retirement system, Congress should look to:

- Support and encourage the continued sponsorship of defined benefit pension plans or a more portable plan with the best features of the much maligned cash balance plans.
- Encourage annuities as an investment and distribution option in defined contribution plans and IRAs. This would address the need for basic spousal protections in 401(k) plans and rollover IRAs. While this is a complicated issue with a lot of contention among the players, annuities would provide the protection for spouses without regulating 401(k)s in a way that employers would find objectionable.
- Encourage automatic enrollment and other pro-saving defaults in 401(k)-type defined contribution plans, with appropriate backstops to ensure that employers continue to have an incentive to increase participation by non-highly compensated workers.
- Analyze the coverage rules to identify possible opportunities to increase women's coverage.
- Expand, extend and simplify the Saver's Tax Credit to provide a financial incentive for moderate and lower income workers to save for retirement.
- Make sure that asset limits in means-tested programs do not penalize lower income workers who save for retirement.

- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers
- Address spiraling health care costs, including the cost of long-term care, recognizing that there can be simply no retirement security in the absence of health reforms.

Financial Education

In addition, policymakers can encourage better understanding of financial issues among all Americans. Policymakers should encourage employers and others to educate workers about retirement planning and saving and highlight the specific issues of importance to women.

Proposed Solutions: What Employers Can Do

Employers can take several steps to help provide women with greater retirement security.

Social Security

Employers should support Social Security as an important means of filling the retirement income picture for their employees. Employers should support several specific changes that will retain Social Security's role as a critical income support system. I will outline these proposals shortly.

Retirement Benefits

Employers are important partners in the provision of retirement security. Employers should:

- Offer retirement programs appropriate to their industry and competitive environment. The best programs offer something for all eligible employees regardless of individual action.
- Tailor programs to work well even for those employees who do not plan well, and consider plan provisions such as auto-enrollment, balanced investment defaults and income as the automatic form of payout at retirement.
- Make it easy and financially attractive for employees to get their benefits as an income guaranteed for life, including a survivor option.
- Create options both for working longer and phasing into retirement. Working longer enables the accumulation of better benefits for retirement.
- Provide access to health benefits, at least to Medicare eligibility.

Financial Education

In addition, employers can be partners in the financial education process. Employers and policy-makers have an interest in education on the same issues. The critical information that should be targeted particularly to address women's issues includes:

- The importance of life decisions related to retirement benefits, such as when taking and leaving jobs, marrying and getting divorced.
- The need to hold onto retirement assets between jobs. Women are more likely to spend their lump-sum retirement distributions between jobs, because they have smaller balances in their accounts.
- Planning for contingencies such as widowhood and divorce.
- The effects of various types of insurance on retirement planning, such as long term care policies.

What Women Can Do: Five Important Steps Women Can Take

- Make retirement planning a priority.
- Learn as much as they can about their benefits on the job and their spouses benefits.
- Educate themselves about their longevity risks as this is a serious issue.
- Estimate their needs and consider the impact of inflation.
- If possible, women need to save more and work longer.

If We Don't Act

If we look at various studies, it is clear that we will have a huge burden as a society. Some indicate that 75 percent of the baby boomers are not prepared for retirement; the average amount in 401(k)s for the group closest to retirement ages 55-64 is anywhere from \$21,000 to \$110,000 depending on the study. According to the most recent Federal Reserve Board study, the typical household account balance is \$83,000, while the Survey of Consumer Finances reports a median of \$60,000. These numbers are dramatic, because this is the group closest to retirement age.

Yet the solution we hear about most in the popular press is that boomers will continue to work. While this may sound like a good idea, circumstances may prevent work for some obvious reasons — no access to a job or bad health, or in the case of many women, providing care for a spouse, mother or a mother-in-law. These circumstances, sometimes referred to as negative shocks, may cause significant financial consequences.

A recent study by the Urban Institute illustrates a way to measure the financial impact of negative shocks. The paper reviews two 10-year periods for those aged 51-61 and for those aged 70 and older.¹¹ What's surprising is that 3/4ths of adults in the earlier group aged 51-61 experience one of these negative shocks:

- Three percent experience divorce.
- Ten percent experience widowhood.
- Forty-one percent experience major new medical conditions.
- Thirty-three percent experience health related work limitations.
- Nearly twenty percent experience job layoffs.

These events often threaten financial security at older ages, but it is especially problematic when they strike adults who may not have completed their retirement preparations.

Concluding Remarks

Despite the legal, social and economic gains made by American women in recent decades, economic insecurity remains a critical issue.

Women's work patterns and caregiving responsibilities will continue to place them at a significant disadvantage in our nation's retirement system. Moreover, the outcome of the current

¹¹ Johnson, Richard W., Gordon B.T. Mermin, Cori E. Ucello: *When the Nest Egg Cracks: Financial Consequences of Health Problems, Marital Status Changes, and Job Layoffs at Older Ages*. Urban Institute. January 2006.

national debate about the future of Social Security and Medicare could have major implications for women's retirement security.

Women of all ages need your help, but the coming generations need it most. Our society is not prepared for the millions of women who will need long-term themselves after providing it for others. Your leadership on these issues is not just welcomed, but crucial if we as a nation are to alter the otherwise startling outlook faced by millions of women in this country. Thank you for your time and consideration. I am pleased to respond to any questions Committee members have at this time.