

Testimony of Sara Cole Hart  
Before the  
United States Senate Special Committee on Aging  
March 15, 2006

Good morning Chairman Smith, from the great state of Oregon, Ranking Member Kohl and Members of the Committee. I appreciate the opportunity to discuss the important issue of the special challenges facing women in retirement.

Today, one out of four older women lives in or near the poverty level, according to the Older Women's League (OWL). Too many women rely on Social Security as their sole source of income. While the pension crisis is real, aging does not have to signify a decline in financial, physical or mental capacity. However the fact is that women in America, particularly women from economically or educationally disadvantaged backgrounds and women from racial or ethnic minorities are confronted with a serious, and often certain, challenge of living in poverty as they age. In fact, data show that one-fifth of elderly unmarried women and one-third of elderly women of color were in poverty in 1998.

Many studies and data analyses from some of the most credible organizations have examined this issue and all agree on the basic reasons why this is true. While I will review the various elements that conspire to create this crisis, I do not intend to spend this valuable time to discuss what has already been so thoroughly documented. Instead, I would rather speak to the potential solutions and answers that are within our grasp if we are serious about addressing this crisis.

The power of government taking action to establish a national retirement policy, partnered with private employers, can change millions of lives.

## **Review of the Reasons Women are more Likely to End their Life in a State of Poverty**

- The two main elements in determining an ultimate retirement income from a private pension plan or from Social Security are compensation levels throughout a worker's years of labor and the number of years in the full-time workforce.
  - Women tend to have higher incidence of interrupted (non-contiguous) employment as a result of their frequent role as primary caregivers of children and, later, elderly family members.<sup>i</sup> Entering and leaving the workforce and working for multiple employers, often result in women not achieving vesting in a retirement benefit.
  - Women earn less than do men.<sup>ii</sup> This is attributable to multiple factors including education and career interruptions, higher prevalence of part-time work,<sup>iii</sup> and frequency of working for smaller employers in lower paid positions, not covered by a private pension plan.
- The socio-economic continuum has changed. Traditionally a woman relied on her husband for financial support and the single or elderly were embraced and cared for within the fabric of extended family. With rising divorce rates, prevalence of households headed by single women and increasingly mobile lifestyles of people of all ages, this no longer holds true.<sup>iv</sup> The fact is that there is not enough money leftover after paying bills to save for retirement for most Americans.
- The tenuous financial status of elderly women is also related to marital status, race and ethnicity.<sup>v</sup>
- Women are less prepared for retirement and are more intimidated about financial issues than men.<sup>vi</sup>
- The life expectancy of a female is longer than for a male.<sup>vii</sup> This single demographic fact presents four distinct issues.
  - A woman must accumulate a larger nest egg during her working years to last through her longer lifetime.
  - A woman is disproportionately affected by loss of purchasing power due to inflation.

- Longer life often results in significantly more serious or debilitating health problems, leading to higher medical expense and the probability of losing independence, requiring long term care or assisted living.<sup>viii</sup>
- A widowed elderly woman is subject to the loss of her spouse's pension income and reduced Social Security benefits.<sup>ix</sup>

### **Recommendations for Solutions to the Pension Crisis faced by Women**

Support and encourage education, including a financial curriculum, beginning in primary school. In order to continue to grow the economy and achieve optimal productivity, employers must have an available resource of educated, trained individuals. Addressing the retirement issues facing women must begin as early as possible in order to mitigate the lost opportunities faced by lack of a strong education.

Make the EGTRRA pension and retirement savings provisions permanent, permitting Americans to save more in employer plans and IRAs. EGTRRA provides significant administrative relief to employers who sponsor plans and enhances the portability among various plans. Women are particularly benefited by the Saver's Credit, which assists low-income savers and by catch-up contributions that permit older workers to save more.

Federal income tax code discourages saving. Savings opportunities must be simplified and incentives for saving must be established. Employers are constrained by cumbersome pension and benefit regulations imposed by IRC, ERISA (and the erosion of ERISA protection) and ADEA. Employers need flexibility in age and service eligibility to maintain a retirement benefit.

Women covered by employer plans will benefit from the shift to a 401(k) or defined contribution plan arrangements because their structure supports savings accumulation during earlier years of employment. Congress should promote the establishment of a 401(k) type benefit at a federal level, allowing individuals or small business to take advantage of simplified administration and lower costs. Additionally there are several proposals in play right now that have the potential to severely undermine the chance of achieving a successful retirement.

- Help employers and individuals obtain some type of annuity which assists in the protection of income during one's lifetime. Lump sum payments often jeopardize retirement income security, especially for women who live longer.
- Do not support proposals that make it easier for active employees to take money out of their retirement savings programs for any reason. Workers have historically understood that defined benefit plan accumulations were not

available for pre-retirement purposes. Defined contribution assets should be treated the same way. Do not adopt House sponsored distribution for qualified reservists, as this short term proposition will have long-term negative effects.

- Strengthen rules promoting a roll-over from an employer sponsored benefit to an eligible IRA or other qualified retirement vehicle. Increase disincentives for taking distributions prior to retirement.
- Early in the initiation of 401(k) plans, it was deemed necessary to offer loans and hardship withdrawals in order to ensure participation. With the prevalence of defined contribution plans, loans and withdrawals undermine future retirement income security. Curtailment of these types of withdrawals is crucial and education about the adverse effects of early withdrawals is essential.
- Support auto enrollment and auto increases into an employer's 401(k) plan and eliminate the ERISA preemption of state law restricting auto enrollment. Establish a safe harbor.
- Expand 404 (c) relief. Urge the DOL to affirm permissible asset classes and investment types.
- Add a fiduciary safe harbor for employers who select qualified independent investment advisors to assist workers. Studies indicate that women tend to invest more conservatively than men, receiving lower rates of return from their investment over time, thus reducing the amount of savings they have at retirement. The addition of investment advice is invaluable.
- Promote changes to ERISA, the tax code and labor code that simplify and permit more flexibility. There are so many required notices that even participants don't pay attention.
- Support expanded benefit statements and the DOL website retirement planning tools.
- Simplify 5500 reporting for small plans.

The employer sponsored defined benefit system is in serious financial trouble, jeopardizing the pensions of millions of workers. The PBGC has a substantial deficit. However, the concept of "insurance" in the PBGC is broken with the few DB sponsors remaining required to pay higher premiums and submit to substantial administrative, accounting, reporting and funding changes. The increased volatility produced by the combination of reduced smoothing, the elimination or restriction of credit balances cause further disincentive for employers to continue to sponsor a DB plan. Employers also question the fairness of reform allowances for the particular industries.

Resolve the Social Security funding issue. Benefits as a share of workers' earnings are expected to decline in the future. In addition, Medicare premiums - which are subtracted from Social Security checks - are expected to rise rapidly. Social Security benefits may be further reduced to solve a long-term funding shortfall. Eliminate rules and incentives that discourage employees from continuing to work beyond traditional Social Security retirement age. The current Social Security system contains many benefits that must be maintained and strengthened, including full cost of living adjustments, guaranteed lifetime benefits, a progressive benefit formula, spousal and

widow benefits, and disability and survivor benefits. Social Security improvements must maintain these guaranteed benefits and consider the inequity of pension benefits and retirement security for women.

Support Social Security credits for time spent as non-paid caregivers, funded by means testing for wealthier retirees. Consider a type of retirement account open to people without earned income, so that caregivers could hold something in their name other than an IRA.

Encourage implementation of Phased Retirement programs that match the reality of today's aging workforce. Pension regulations currently prohibit defined benefit plans from offering benefits before normal retirement date. Employers are facing labor and talent shortages. Recognize that the traditional concept of retirement is changing from work-save-retire model and being replaced by a lifestyle change. Gradual transition keeps talent in workforce and helps employers retain productive workers while transitioning into retirement by reduced hours and responsibility. Seasoned employees want to continue to make a difference. Support regulations to eliminate confusion and allow for establishment of phased retirement.

Employers are looking to Congress to affirm established precedent in Hybrid plans as well as settle the issues surrounding these plans on a prospective basis. The continued uncertainty is a strong deterrent to committing to sponsoring a Hybrid type plan.

Women face special challenges in finding a new job, career, employment path and maintaining a place in the workforce to become economically self-sufficient. Congress must support maximization of ongoing training opportunities that balance the requirements of a modern workforce with the income, civic, family and social needs. Tax incentives for employers to hire and train women returning to the workforce are undoubtedly a win-win cause and are a solution to the underutilization of women's talent.

Today with so much attention focused on the issue of retirement and pension reform, we have a meaningful opportunity to strengthen not strangle employer sponsored retirement systems, thereby offering stability to women and other workers. If Congress fails to enact a national retirement policy that recognizes the special needs of women it is tantamount to sanctioning poverty in old age as a natural result.

## Endnotes:

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<sup>i</sup> Women on average spend 10 years away from the workforce, for these and other reasons, versus one year for men. Financially, this results in lower overall earnings and smaller pension and Social Security benefits. For every year a woman stays out of the workforce, it will take her five years to recover lost income, pension coverage, and career advancement.

<sup>ii</sup> Bureau of Labor and Census Bureau statistics from 1999 reveal that females age 25-34 earned a median income of \$18,396, contrasted to males' median income of \$29,864. Women 25 years and older with at least a bachelor's degree earned a median income of \$31,642, while men in that same category earned a median income of \$52,240. The weekly earnings gap equaled 23.5% and the annual earnings gap was 27.8% between females and males. Annual earnings for women working full time amounted to 72.2% of men's annual earnings.

<sup>iii</sup> About twenty-five percent of all women work part time, compared to about ten percent of men, and are most likely to work part time when they have children at home. Women spend fewer years in the workforce, an average of 32 years, contrasted to an average of 44 years for men.

<sup>iv</sup> Divorce and the problem of default on child support payments is a national crisis disproportionately affecting women and their ability to participate fully in the workplace and accumulate retirement savings. A U.S. Census Bureau report, Child Support for Custodial Mothers and Fathers, determined that out of 14 million custodial parents approximately 85% were women and 15% were men. Fewer than half received their full court-ordered child support payments. Custodial parents were due about \$30 billion, with mothers due \$26.4 billion and fathers \$2.7 billion. The burden of child and household support falls more often to women with single incomes. Studies show that the average annual income for a divorced midlife woman is only \$11,000.

<sup>v</sup> According to the Center on Budget and Policy priorities data using 1999 data collected by Bureau of Census.

<sup>vi</sup> A 1997 study by Dreyfus and the National Center for Women and Retirement Research found that 33% of women investors avoided making decisions out of fear of making a mistake, versus 22% of the male investors. Women often defer financial decisions and money management to the men in their lives.

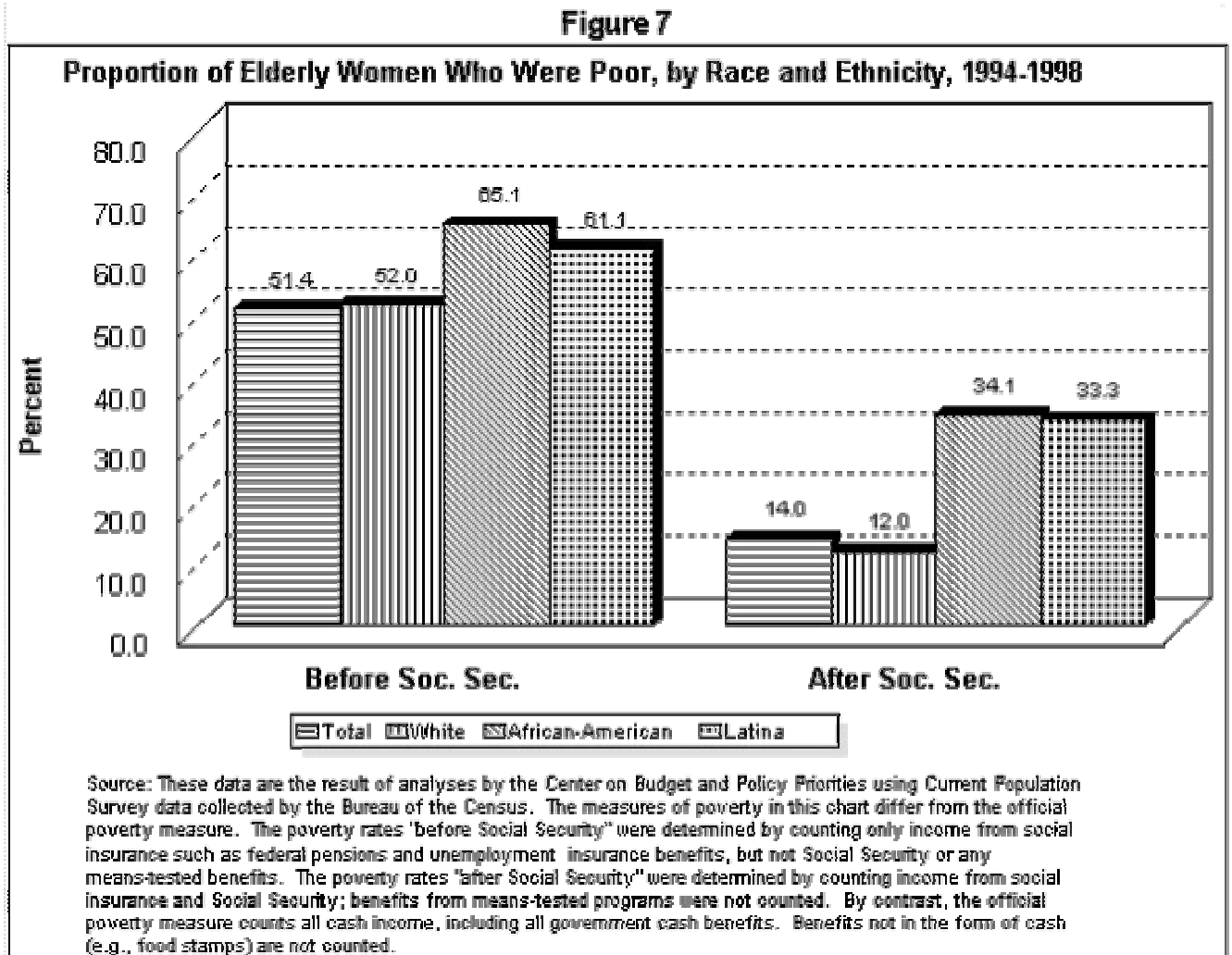
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<sup>vii</sup> On average, a woman retiring at age 55 can expect to live another 27 years, 4 years longer than a man retiring at the same age. With advances in healthcare during this century, life expectancies have continued to rise. More people reach the traditional retirement age of 65 than in the past and life expectancy during retirement has increased. In 1900, the average life expectancy for women was 47 years of age. Only one person in 25 survived to age 60 and women lived shorter lives due to childbirth, according to the U.S. Bureau of the Census. However, by 1950, life expectancy for women averaged at 71 and 65 for men. In 1990, females reaching the age of 65 were expected to live just over 19 years longer and men, on the average, lived 15 more years after the age of 65.

<sup>viii</sup> Women are twice as likely as men to live in a nursing home and will spend more years and a larger percentage of their lifetime disabled.

<sup>ix</sup> Women tend to marry older men; consequently, seven out of ten women, whose marriages remain intact, will outlive their husbands. Many of those women will be widows for fifteen to twenty years. The Administration on Aging notes that over half the elderly widows now living in poverty were not living in poverty before their husbands died.

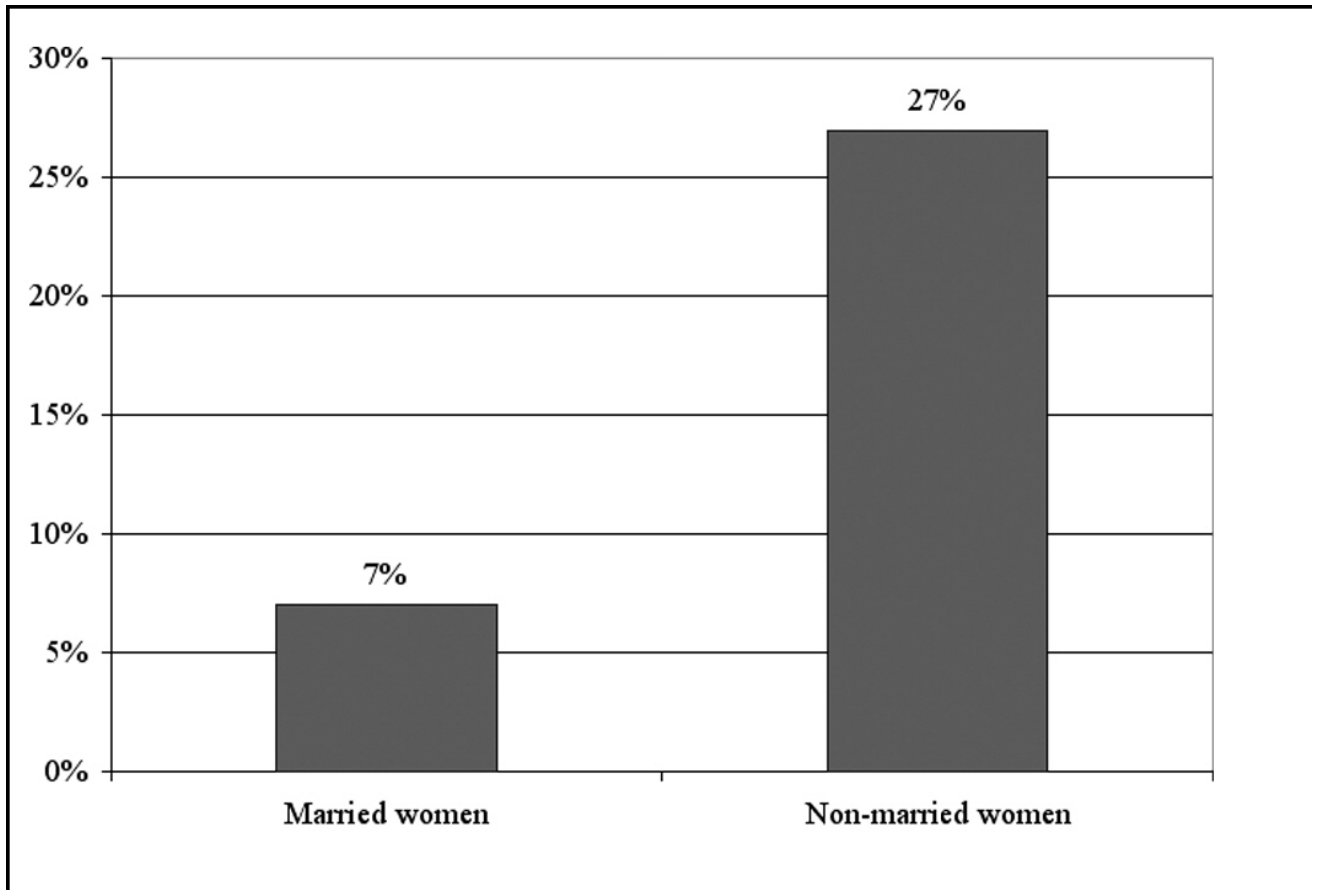
**Figure 1**  
**Proportion of Elderly Women Who Were Poor,**  
**by Race and Ethnicity, 1994-1998**





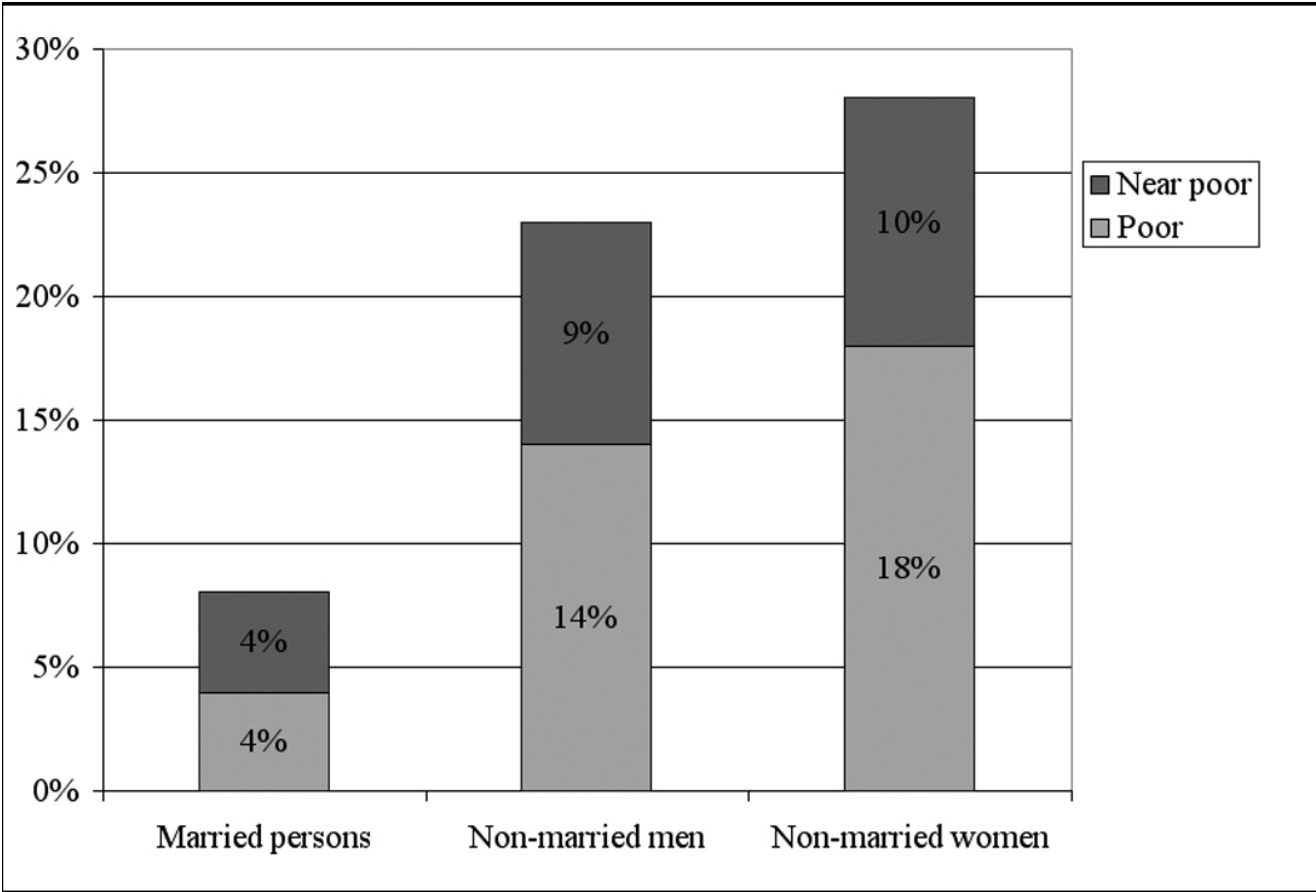
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**Figure 2**  
**Percent of Women Poor or Near Poor, Age 65 - 69**



**Source: US Social Security Administration (2002)**

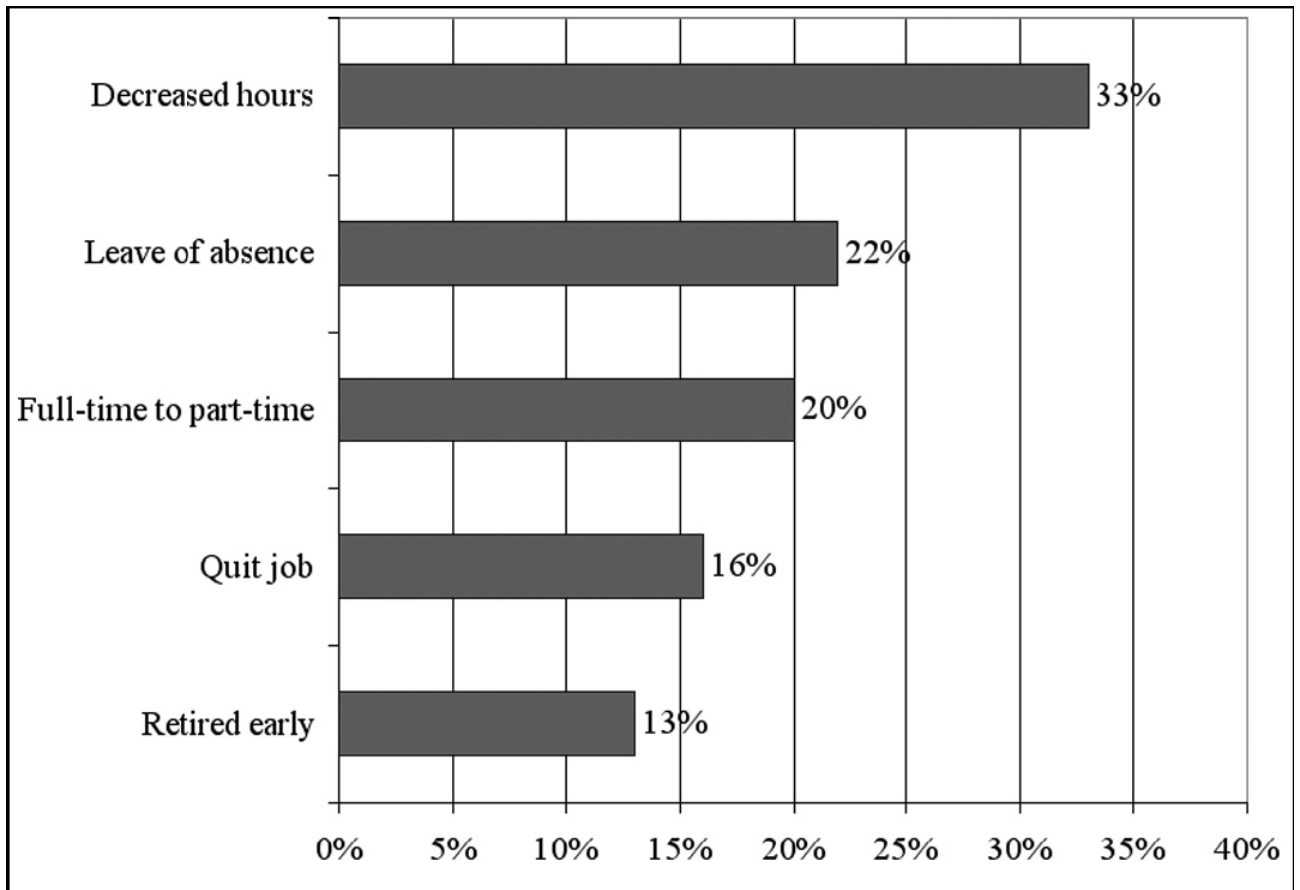
**Figure 3**  
**Life Expectancy at Age 65**



Source: US Social Security Administration (2003)

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**Figure 4**  
**Effects of Caregiving on Work Schedule**



Source: Metropolitan Life Insurance Company (1999)