

STATEMENT OF CHAIRMAN GORDON H. SMITH
U.S. Senate Special Committee on Aging
“Bridging the Gender Gap: Eliminating Retirement Income Disparity for Women”
March 15, 2006

Good morning, and thank you all for coming.

We’re here today to discuss a topic of growing concern in America – women and retirement security. We will explore reasons why there is a gap in retirement income between men and women, the factors behind why women face greater financial risk and ways to assist women in planning for retirement.

Preparing for retirement and achieving financial security are daunting tasks for all Americans to be sure; however, women face many unique challenges. For example, women still perform the primary caretaker role in our society. As a result, many women spend significant periods of time out of the workforce raising children or taking care of elderly parents, significantly diluting their earning power.

Women also are more likely to work part-time or work in industries where employers are less likely to offer retirement benefits.

And women generally earn less than men. In 2004, women earned 77 cents for every dollar earned by men.

All of these factors have a significant impact on what women receive from Social Security and pensions, as well as what they are able to accumulate through personal savings. The bottom line is it’s harder to accumulate retirement income when you’re making less money – and working for fewer years.

As a result, women receive significantly less income during retirement than men. This is true for all three legs of the retirement income stool – Social Security, pensions and savings.

In 2004, the median annual income of women over the age of 65 was \$12,000. Men on the other hand had income of about \$21,000. Although this figure is extremely low for men as well, women received almost half of what men collected in retirement.

This income gap is further exacerbated by the fact that women generally live longer than men – and therefore need to stretch their income over a longer period of time.

Equally disturbing is the high rate of poverty among older women. Of the 3.5 million Americans over the age of 65 who were in poverty in 2004, about 70 percent were women.

Due to many factors, including high divorce rates and the fact that women generally live longer, many women will spend a portion of their retirement years without a spouse or significant other. However, living alone can have serious consequences on one’s financial security.

In 2004, the poverty rate for married women over the age of 65 was 4.4 percent. For unmarried women, the poverty rate was 17.4 percent – almost four times higher. And the rate is much higher for single black and Hispanic women.

I have spent a great deal of time over the last year examining the issue of retirement savings and security. Last June, I introduced a bi-partisan bill with Senator Kent Conrad of North Dakota dealing with this issue. Although the bill is aimed at increasing savings and ensuring greater financial security in retirement for all Americans, many of the proposals address the unique challenges that women face.

For example, America's savings rate for both men and women can best be described as dismal. Our national personal-savings rate had declined dramatically over the last two decades and today is less than zero.

My bill encourages employers to adopt automatic enrollment in 401(k) plans, a simple idea that has been shown to increase participation significantly – especially among low and moderate income individuals. A study of employees who earn less than \$20,000 showed 401(k) participation rates increased from 13 percent to 80 percent when the employees were automatically enrolled, an amazing increase for such a simple change.

My proposed legislation also expands the Saver's Credit, which is a tax credit for certain low and moderate-income individuals who contribute to workplace retirement plans and IRAs. The Saver's Credit has been hugely successful in encouraging savings and is used by more than five million Americans each year. Unfortunately it is set to expire this year. My bill remedies this by extending the credit through 2010 so those who most need to save for the future are encouraged to do so.

Another key component provides incentives for lifetime payments. Since women generally live longer than men, they must be particularly concerned with protecting against the risk of exhausting their retirement income. Life annuities help ensure that older Americans will not outlive their retirement savings, adding stability and security in our retirement years.

Although these are good first steps, more needs to be done. I am currently developing legislation with the specific goal of narrowing the retirement income gap between men and women. To assist in drafting this bill, I have organized a "kitchen cabinet" of retirement experts who are concerned with the financial security of women. This group includes benefits attorneys, financial services companies, advocacy groups and organizations representing employers. My hope is that by bringing together this broad coalition, we'll be able to develop bi-partisan solutions to this very challenging problem.

Lastly, I'd like to thank our witnesses who join us this morning. I am eagerly anticipating your testimony and look forward to a productive dialog on ways we can begin to eliminate the retirement income gap problem.

With that, I'll turn to my colleague Senator Kohl for his opening remarks.