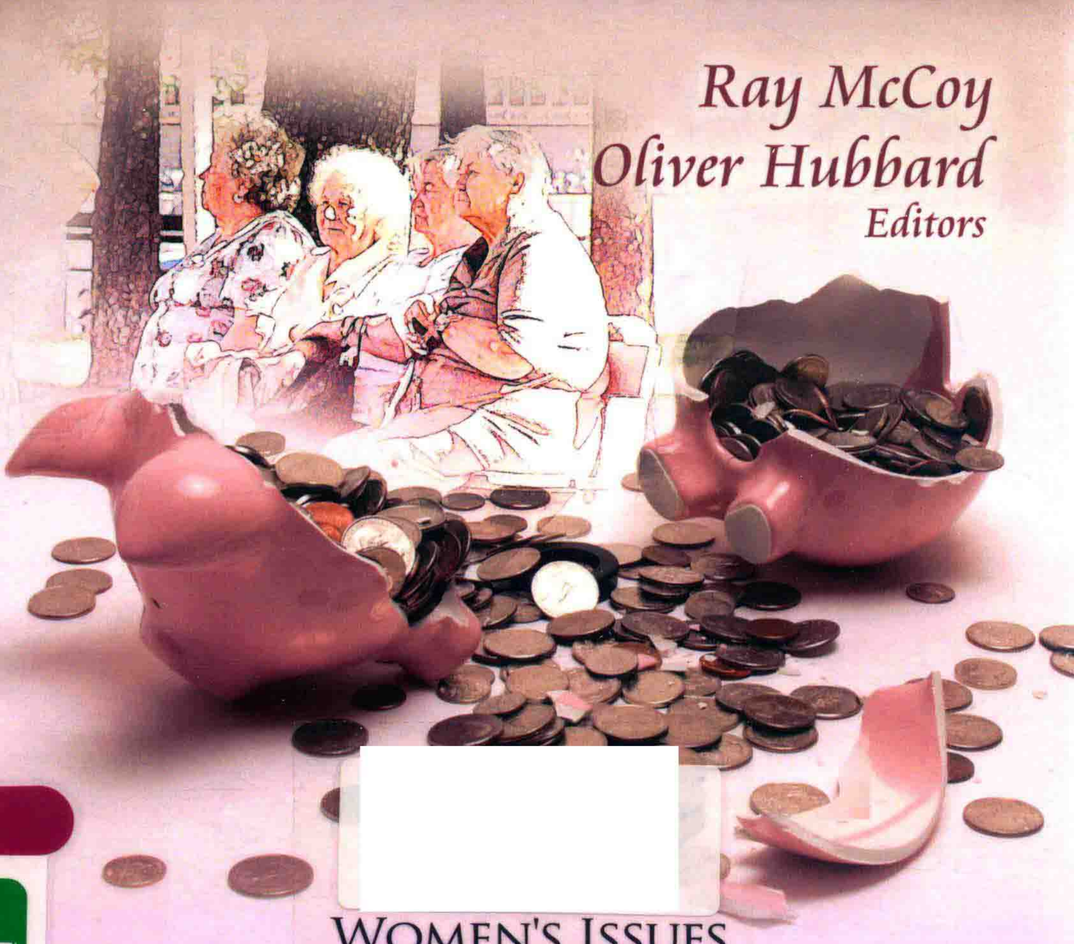
Women's Retirement Security

Challenges and Trends

Ray McCoy
Oliver Hubbard
Editors



Women's Issues

NOVA

WOMEN'S ISSUES

WOMEN'S RETIREMENT SECURITY

CHALLENGES AND TRENDS

RAY MCCOY
AND
OLIVER HUBBARD
EDITORS

nova publishers

Library of Congress Cataloging-in-Publication Data

ISBN: 978-1-62257-894-8

Published by Nova Science Publishers, Inc. † New York

WOMEN'S ISSUES

WOMEN'S RETIREMENT SECURITY

CHALLENGES AND TRENDS

WOMEN'S ISSUES

Additional books in this series can be found on Nova's website under the Series tab.

Additional e-books in this series can be found on Nova's website under the e-books tab.

RETIREMENT ISSUES, PLANS AND LIFESTYLES

Additional books in this series can be found on Nova's website under the Series tab.

Additional e-books in this series can be found on Nova's website under the e-books tab.

PREFACE

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, their taking time out of the workforce to care for family members, and outliving their spouses. Other factors affecting older women's financial insecurity include the economic downturn and changing trends in pension plan offerings. This book examines how women's access to and participation in employer-sponsored retirement plans compare to men's and how they have changed over time; how women's retirement income compares to men's and how the composition of their income--the proportion of income coming from different sources--has changed with the economic conditions and trends in pension design; and what policy options are available to help increase women's retirement income security.

Chapter 1 – 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.

Chapter 2 – This is Statement of Senator Herb Kohl.

Chapter 3 – This is Statement of LaTina Burse Greene.

Chapter 4 – This is Testimony of Kelly O'Donnell.

Chapter 5 – This is Statement of Sabrina L. Schaeffer.

Chapter 6 – This is Testimony of Joan Entmacher.

CONTENTS

In: Women's Retirement Security
Editors: R. McCoy and O. Hubbard
ISBN: 978-1-62257-894-8

Chapter 1

RETIREMENT SECURITY: WOMEN STILL FACE CHALLENGES*

United States Government Accountability Office

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,

* This is an edited, reformatted and augmented version of the Highlights of GAO-12-699, a report to the Chairman, Special Committee on Aging, U.S. Senate, dated July 2012.

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.

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.

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

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 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, 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.

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 figure 1).

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]

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 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.

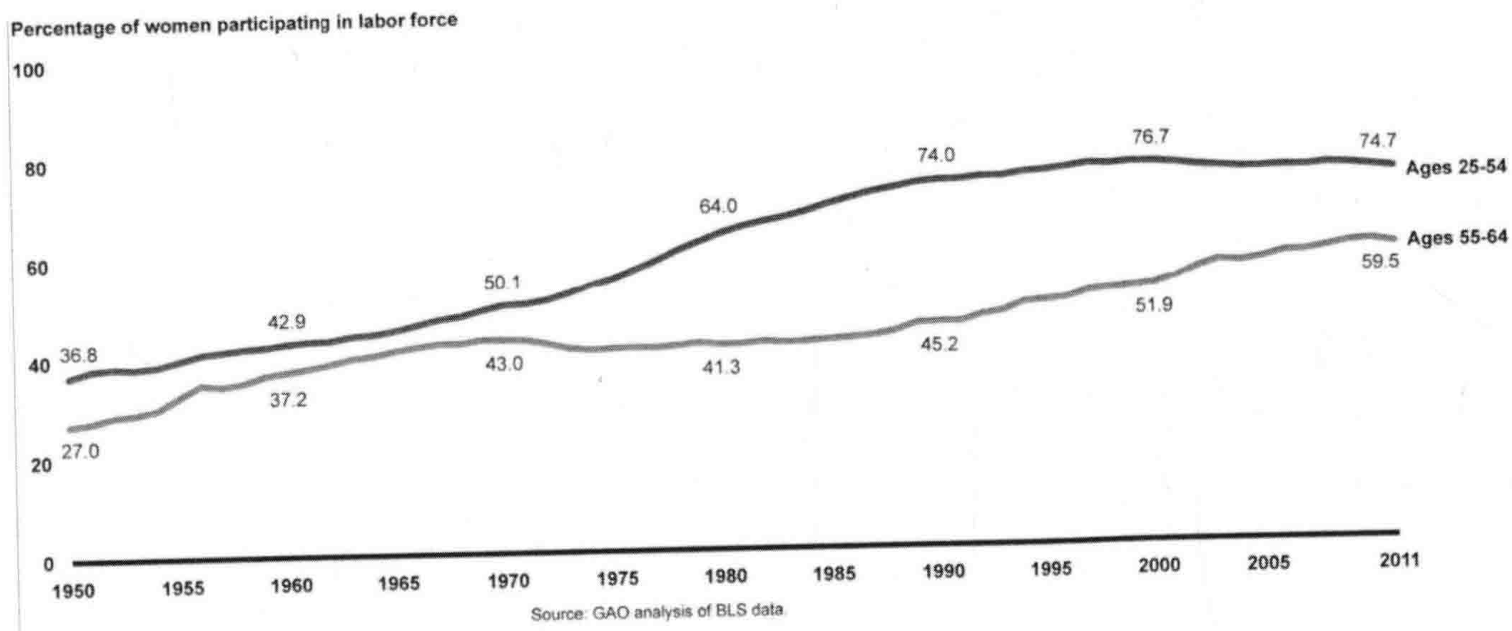


Figure 1. Labor Force Participation Rates for Women, Ages 25 to 64.

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 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 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