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WOMEN'S RETIREMENT SECURITY

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WOMEN'S RETIREMENT SECURITY

WEDNESDAY, MAY 21, 2014

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 10:03 a.m. in Room 216 of the Hart Senate Office Building, the Honorable Amy Klobuchar, Vice Chair, presiding.

Representatives present: Paulsen, Hanna, Carolyn B. Maloney, Delaney, and Jenkins.

Senators Present: Klobuchar.

Staff present: Hank Butler, Gail Cohen, Connie Foster, Niles Godes, Colleen Healy, Robert O'Quinn, and Steve Robinson.

OPENING STATEMENT OF HON. AMY KLOBUCHAR, VICE CHAIR, A U.S. SENATOR FROM MINNESOTA

Vice Chair Klobuchar. All right, we are going to begin the hearing. I want to thank everyone for coming. We have a full house today, and I want to thank many of the visitors that we have. I know the AARP volunteers are on the Hill today, and we also have State staff who are joining us for the hearing. Thank you, as well as many other visitors.

I want to specifically mention our Minnesota AARP people, Will Phillips, who is the new AARP Minnesota State Director, as well as Jim Scheibel, who is a former Mayor of St. Paul. So I want to thank them for being here. I am going to meet with them later on today, and I'm looking forward to it.

I also want to thank Congressman Hanna, who is our chair on the House side today. I know Representative Brady had another commitment, and I really appreciate that he allowed us to go forward with this hearing, and Representative Hanna is here. And I also want to thank Ms. Jenkins, who is a visitor, a Congressional Visitor from the State of Kansas. So we are excited to have her, as well.

The role of women has changed dramatically, as we all know, over the past few decades. And much of the credit goes to women who have come before us and created opportunities, broken down barriers, and paved the way for generations to come.

Even with this progress, we know that there is still more work to do and we need to ensure that women have access to opportunities and are able to plan, save, and increase their economic and financial security as they approach retirement.

I would first like to introduce our distinguished group of witnesses here. We have Dr. Debra Whitman. She is Executive Vice

President, Policy, Strategy and International Affairs at AARP. Her career has been dedicated to solving problems affecting economic and health security issues related to the aging population.

Dr. Brigitte Madrian is the Aetna Professor of Public Policy and Corporate Management at the Harvard Kennedy School. Her research concentrates on behavioral economics and household finance, with a focus on household savings and investment behavior.

We also have with us Ms. Cindy Hounsell—do you say "Hounsell"?

Ms. Hounsell. Houn-sell.

Vice Chair Klobuchar. Ms. Hounsell is President of the Women's Institute for a Secure Retirement, which works to improve the opportunities for women to secure retirement income. She has served as a delegate for the last two White House Conferences on Aging, and the White House Social Security Conference.

Ms. Rachel Greszler is a Senior Policy Analyst, Economics and Entitlements, at The Heritage Foundation's Center for Data Analysis. Before joining Heritage, she was Senior Economist at the Joint Economic Committee from 2006 to 2013. We always like when our alumns do well. Congratulations.

As I have mentioned in my opening, we have seen real progress in the last 50 years in reducing the poverty rate among older Americans. Poverty among older men and women has fallen significantly since the mid-1960s when Medicare and Medicaid were created.

In 1966, nearly a quarter of men 65 and over, and almost one-third of women 65 and older, lived in poverty. By 2012, the poverty rates for these same groups has fallen to 6.6 percent of men, and 11 percent of women.

While there has been significant progress for both men and women, women still face, as you can see, a significantly higher poverty rate in their retirement. The poverty rate for women 75 and older is twice that of men 75 and older. I don't think most people would guess that or realize it, but it is a fact.

A major source of the progress on poverty, as you all know, has been Social Security. In 2012, Social Security alone lifted more than 15 million elderly Americans out of poverty. Without Social Security, the poverty rate for women 65 years or older would climb to 48.6 percent.

In the coming years, we will be facing new demographic challenges. The Census Bureau says that between 2005 and 2030, the project that between those years the number of Americans age 65 and older will have doubled that.

(A cellphone sounds.)

Vice Chair Klobuchar. That was his siren call for the doubling of the population.

[Laughter.]

Representative Delaney. Sorry.

Vice Chair Klobuchar. Between 65 and older. I no longer call it a "silver tsunami." I know that has some bad connotations, so we will call it a "silver sensation"—how's that?

[Laughter.]

We will put a positive spin on it. We are so glad that we have so many seniors that are doing better and living longer, but as we know with this rapidly growing population we need to ensure that both men and women can retire in peace and that most of our focus today is on how we close this gap for women and strengthen their retirement security.

In April I released a report highlighting how women's lower wages not only affect their current financial security but also affect their retirement security. Women who work full-time earn about 80 cents for every $1 that men earn. Much of this disparity is due to differences in education and occupation, but even after accounting for those and other factors women still make less than men.

The pay gap is even greater for older workers. Lower lifetime earnings translate to less money for retirement. Annual median income for women 65 and over is about $11,000 less for men in the same age group—again, average, median income, annual, is about $11,000 less for women than it is for men.

Retirement experts often talk about the three-legged stool: Social Security, employer retirement plans such as corporate or government pensions, and savings, personal savings such as IRAs.

Women rely more on Social Security for their retirement income than men, but their benefits—because of the reasons I just discussed with their salaries—are lower than men. The average weekly Social Security benefit for female retirees is 78 percent of what it is for male retirees.

Women are also less likely to receive income from a traditional pension plan, and when they do their pension check is smaller. Women's median income from company or union pensions is 53 percent of men's median income from those sources.

Lower earnings also affect the ability of women to contribute to retirement plans such as 401K, 403B, or Employee Stock Ownership Plans, or IRAs. In addition, because women live longer and are more likely to be single in retirement, they cannot rely on a spouse's income to supplement their own.

In 2013, only 45 percent of women age 65 and over were married, compared to 71 percent of men—okay, that's the most interesting statistic of all. Preparing for a secure retirement is even more challenging because many women of the Baby Boomer Generation are also members of the so-called "Sandwich Generation," one I was in for quite awhile where you have young kids and at the same time you have aging parents.

Because of these care-giving responsibilities, women have 12 fewer years in the paid workforce over their lifetimes, leading to lost wages, lower Social Security, and private pension losses as a result of their care-giving responsibilities.

In addition to lost wages, family care-givers end up paying about $5,500 per year in out-of-pocket costs. To help support families who care for aging family members, I introduced the Americans Giving Care To Elders Act, or the AGE Act, with Senator Barbara Mikulski a few years back. And, while we are waiting for Congress to move on the issue of long-term care, I still think of it as the elephant in the room. As we grapple with our continuing debates about health care and the need to continue our work in that area, we cannot neglect this issue of long-term care.

We should also strengthen Social Security, including raising the cap on taxable income. In my mind, currently all income above

$117,000 is exempt from the Social Security Payroll Tax. Gradually raising this threshold, along with other reasonable reforms, could help ensure the solvency of Social Security but not impact current beneficiaries.

We cannot concentrate solely on lifting women's income as they retire or are near retirement. We also need to ensure that women's earnings throughout their lives lay the groundwork for a secure retirement.

I am going to turn this over to Congressman Hanna and just end by saying that we have made extraordinary progress in reducing poverty, but the reality and the focus of this hearing today is that women remain less financially secure—much less—than men in their retirement years.

Today's hearing can help us to uncover new ways to address this challenge.

Congressman Hanna.

Representative Hanna. Thank you.

OPENING STATEMENT OF HON. RICHARD L. HANNA, A U.S. REPRESENTATIVE FROM NEW YORK

Experience shows a strong economy is the foundation of a secure economy. Workers with good jobs and adequate savings are better prepared to enjoy their retirement years. Women tend to live longer than men so a strong and vibrant economy is even more critical to providing them with a secure retirement.

Unfortunately, our sluggish economy and aging population threaten our Nation's future retirement security.

As Chairman Brady has observed, America has fallen into a "growth gap." Our economy is growing at half the rate of previous recoveries. That means we are falling further behind in terms of jobs and income relative to where we need to be.

Fewer jobs and less income mean Americans will be less prepared for retirement. Older workers who lose their jobs often retire before they are ready. That means lower Social Security benefits and less retirement savings. Spreading fewer resources over more years results in a less secure retirement.

Our Nation's population is getting older. As the youngest Baby Boomers enter the retirement years, we will undergo a dramatic demographic shift. The ratio of workers to retirees will shift from roughly three-to-one to only two-to-one.

This demographic shift will undermine the pay-as-you-go financing of Social Security and Medicare programs. As a result, neither program will be able to meet its promised benefits and obligations. Our continuing growth gap and looming entitlement crisis will adversely affect every American, but especially and particularly women and older women.

Regrettably, women typically have lower lifetime earnings. However, have longer life expectancies than men. Women are also less likely to be covered by an employer pension program. As a result, they are at grater risk of falling into poverty during their retirement years.

To improve the retirement security of women, we must understand the nature and extent of the problem.

As we focus on the topic of today's hearing, we must not lose sight of the fact that a growing economy creates more jobs, higher wages, and greater retirement security for both men and women.

Economic growth alone cannot provide a secure retirement or prevent the insolvency of our entitlement programs, but without more growth our task will be much, much harder.

We have a distinguished panel with us today, including a former member of the Joint Economic Committee, Rachel Greszler. I look forward to hearing each of our witness's testimony, and I hope we gain important insights into this very critical and timely subject.

Thank you.

[The prepared statement of Representative Hanna appears in the Submissions for the Record on page 28.]

Vice Chair Klobuchar. Thank you very much, Congressman Hanna.

Dr. Whitman.

STATEMENT OF DR. DEBRA WHITMAN, EXECUTIVE VICE PRESIDENT, POLICY, STRATEGY AND INTERNATIONAL AFFAIRS, AARP, WASHINGTON, DC

Dr. Whitman. Thank you so much, and good morning.

On behalf of AARP's 37 million members and all Americans age 50 and over, I would like to thank Vice Chair Klobuchar for inviting me to testify, and for convening, along with Representative Hanna and the other members of the Joint Economic Committee, this important hearing on women's retirement security.

I would also like to recognize and thank the AARP leaders and volunteers from our state offices who are here today on Capitol Hill to visit their Members of Congress.

The dream of a financially secure retirement is often much harder to attain for women than it is for men. And if you think about the reality of most women's lives, the reasons are fairly straightforward. Women on average live almost three years longer than men, so they have more years of retirement to pay for, yet they typically reach their later years with less income and savings than men.

Older women are more likely than men to end up alone. They are more likely to need long-term services and supports, and they often face greater health care costs. For all of these reasons, older women are more likely than men to live under the shadow of financial stress.

They have greater risk than men of outlasting their savings, and they are far more likely than men to end up in poverty. In fact, in 2012 almost 17 percent of women 65 and older were poor compared to 12 percent of men, according to the Census Bureau's Supplemental Poverty Measure, which takes into account out-of-pocket health care spending.

Before going further, it is important to make it clear that financial security among older women varies widely. Older African American and Hispanic women have poverty rates that are more than double that of older White women. Single older women are up to five times more likely to be poor than married older women. And as Vice Chair Klobuchar said, poverty rates also vary significantly by age.

We know that disparities can take many forms. For example, women who lack education or belong to economically disadvantaged racial or ethnic groups have much shorter life expectancies than educated White women. And despite women's advances in the workplace, a great many still face obstacles to their financial well-being in old age.

Because of care-giving responsibilities, both for their children and older family members, women are more likely than men to work part-time, to spend time outside the labor force, to pass up promotions, and to shorten their careers.

We also know that women are more likely to work in jobs and industries that tend to offer lower pay and benefits. Yet, increases in longevity and rising health care costs are actually worsening the outlook for many older women.

For these and other reasons, improving women's retirement security requires a multi-pronged strategy. And I will use the rest of my time to highlight key solutions.

First of all, we need to keep Social Security strong. Currently, women's Social Security retirement benefits are 20 percent lower on average than men's, and women are more likely to depend on them for the majority of their income. Its protections, including guaranteed benefits and cost-of-living adjustments, are critical for women.

We urge more employers to offer retirement savings plans. Roughly one-in-two workers cannot set aside savings for retirement from their paycheck, so improving coverage is critical. That is why we support the Automatic IRA legislation which would provide an easy and low-cost way for workers to build nest eggs through payroll deduction.

AARP also supports state efforts to offer work-and-save plans to private-sector employees who do not have access to retirement plans in their workplace. We also urge employers to adopt automatic enrollment in retirement savings plans, as well as automatic escalation of contributions. And workers should have the option of receiving their retirement benefits as lifetime income, which would help protect women from out-living their savings.

Enhancing tax incentives to encourage more people to save for retirement is another key to the solution. This is especially true for low- and moderate-income workers, and an improved and strengthened savers credit is one way to achieve this goal. Working longer, for those who still can, can also improve their retirement security. We encourage employers to adopt policies such as flexible schedules that help older workers stay on the job.

We support adequate funding of training and retraining programs to help older workers stay competitive. And, importantly, AARP supports bipartisan legislation to restore long-established protections against age discrimination in the workplace.

As Representative Hanna said in his opening statement, economic growth is an important factor for retirement security. Women and men, for that matter, should have peace of mind about their financial security as they age. That is why AARP believes it is time for a national conversation on retirement security to consider responsible ways to achieve this goal for all Americans.

Thank you.

[The prepared statement of Dr. Debra Whitman appears in the Submissions for the Record on page 29.]

Vice Chair Klobuchar. Thank you.

Dr. Madrian.

STATEMENT OF DR. BRIGITTE MADRIAN, AETNA PROFESSOR OF PUBLIC POLICY AND CORPORATE MANAGEMENT, HARVARD KENNEDY SCHOOL, CAMBRIDGE, MA

Dr. Madrian. Thank you for the opportunity to speak to you today and share my thoughts on how we can strengthen America's retirement savings system.

In examining the retirement security of women in the U.S., there is both good news and bad news. Saving for retirement and then managing one's assets in retirement is one of the largest, if not the largest, financial task that any household will undertake.

Yet, evidence on the financial capabilities of the U.S. population show that we as a nation are woefully unprepared for this task, and that women fare worse than men.

Women have significantly lower scores than men on a simple five-question test designed to test knowledge of basic financial concepts such as inflation, compound interest, and the value of diversification. This is true for both married and single women. Interestingly, women are not much more likely to give incorrect answers than men; instead, they are much more likely to answer "I don't know."

Women are also substantially more likely than men to report that it would be difficult for them to come up with $2,000 to meet an unexpected expense within the next 30 days—44 percent for women versus 34 percent for men. Women are also more likely than men to report difficulty paying bills than men—57 percent for women versus 47 percent for men.

But as women approach retirement, some of this gap narrows. There is some evidence to suggest that married women become more financially literate as they age in response to the likelihood that they will outlive their husbands and need to assume sole management of the household finances.

Planning for retirement is not an activity engaged in by the majority of either women or men. On the retirement planning front, there are no substantive differences by gender, with 43 percent of both men and women having planned for retirement—although a slightly higher fraction of men than women actually report having some retirement savings: 63 percent for men versus 58 percent for women.

The fraction of the population working for an employer that sponsors a retirement plan is actually relatively similar for men and women, about half, according to a 2012 report by the Employee Benefit Research Institute.

The fraction participating in an employer-sponsored savings plan is also similar for men and women. This latter finding is corroborated by a recent Vanguard report, "How America Saves: 2013" which shows that differences in savings plan participation rates by gender are not sizeable when comparing all men and all women eligible to participate.

In some years, women have a slightly higher participation rate than men, and in others men have a slightly higher participation rate than women.

This apparent parity, however, fails to account for the fact that women earn less than men and that savings plan participation tends to increase with income.

Conditional on income, women actually have substantially higher savings plan participation rates than men at all levels of income except for those earning more than $100,000 annually, where the participation rates are roughly equal.

Similarly, women and men have roughly equal contribution rates overall, but conditional on the income women's contribution rates exceed those of men at all income levels. Women, however, are less likely to make the maximum possible contribution, or to make catch-up contributions to their plan if they are eligible.

Women and men are equally likely to have taken a loan out against their savings plan balances, with about 20 percent having an outstanding loan. Although the average loan balance is lower in dollar terms for women than for men, loan value as a fraction of total assets is similar.

This largely reflects the fact that women have lower balances against which to borrow. Because women have lower pay than men on average—a point that has already been noted several times—and also shorter job tenure, women tend to have account balances that are roughly one-third lower than their male counterparts.

In employer-sponsored savings plans, the asset allocation of women and men is fairly similar. Women, however, report having less tolerance for risk, and there are some notable differences in the investing behavior of women and men outside the domain of employer-sponsored savings plans.

In outside investment accounts, women are less likely than men to put their money in high-risk investments. But they are more patient and are less likely to trade in and out of stocks to time the market or in response to an investment doing worse than expected.

Taking on less risk can reduce expected portfolio returns, but trading less implies lower trading costs and a lower likelihood of mistiming the market.

My biggest concern for women is what happens in retirement. Women have longer life expectancies than men, and married women tend to be several years younger than their husbands, so the average married woman reaching retirement can expect to spend several years as a widow, and the average single woman reaching retirement will spend all of her retirement years that way.

In the shift away from defined benefit and towards defined contribution retirement plans, the financial security of women in retirement will depend very much on how the wealth accumulated for retirement is managed.

With a traditional defined benefit pension, the default payout for a married couple is a joint and survivor annuity. Anything else requires the affirmative consent of the spouse. But defined contribution assets are largely not annuitized in retirement, leaving women vulnerable if the assets are not managed to last for their longer life expectancies.

The implications of the shift from a defined benefit to a defined contribution retirement system on the wellbeing of older workers has not received sufficient attention in either academic or policy circles.

In conclusion, most of the problems with the retirement savings system in the U.S. are not unique to women. The problems of access to employer-sponsored savings plans are real for both men and women.

On some measures, women do better than men: conditional on having access to a plan, they are more likely to participate and they contribute more.

But on other measures, women do worse. They have lower account balances, largely driven by lower levels of tenure, and lower pay than their male counterparts—which represent more fundamental problems with the labor market. The biggest concern is the longevity risk that women will face in retirement. They have longer life expectancies than men, yet have saved less for themselves.

[The prepared statement of Dr. Brigitte Madrian appears in the Submissions for the Record on page 41.]

Vice Chair Klobuchar. Thank you so much.

Ms. Hounsell.

STATEMENT OF MS. CINDY HOUNSELL, PRESIDENT, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT, WASHINGTON, DC

Ms. Hounsell. Good morning, Vice Chair Klobuchar and Representative Hanna, and Representative Delaney.

I appreciate the opportunity to appear before you to discuss women's retirement security. I am President of the Women's Institute for A Secure Retirement. WISER is a nonprofit organization. Our primary mission is financial education/capability—providing women with the crucial skills and information they need to avoid poverty in retirement.

WISER operates the National Resource Center on Women and Retirement Planning under a cooperative agreement with the Administration on Aging. The Center's goal is to help low- and moderate-income women make the best decisions they can with the assets and income that they have.

Retirement decisions are complicated and getting it wrong means a stronger likelihood of poverty in old age, and a stronger reliance on government programs.

Women are at greater risk, as we have heard, but I would like to add one more statistic to this. And that is, that women need more retirement savings and assets, yet they have less. Studies have projected that women on average need to replace nearly 130 percent of their final pay at retirement due to their life expectancy.

Many women also have uneven work histories due to time out of the workforce for family care-giving. The financial issues of family care-giving can jeopardize the long-term retirement security of women, and that will be the focus of the rest of what I am going to talk about.

Women remain the Nation's primary care-givers, whether caring for children or older family members. As care-givers, women are at an even greater risk of experiencing financial setbacks.

When a two-income couple has a family, it still remain largely the mother's responsibility to take care of the children. In the majority of cases where a family elder requires care, it is women who provide it. Nearly 66 million people provide elder care in this country, and 61 percent of them are women.

Nearly 5.5 million women who provide such care have children under 16. The Pew Research Center did a profile of the sandwich generation, finding that of the adults who provide care and are also providing financial support to an aging parent and supporting a child, nearly a third were just able to meet their basic expenses; while 11 percent were not able to meet their basic expenses.

Research indicates also that care-givers lose nearly $304,000 in wages, lost pensions, and reduced Social Security benefits. Caregivers pay an estimated $5,500 in out-of-pocket costs each year for the person to whom they provide this care. Many of these caregivers either stop saving for their own retirement or dip into their retirement savings.

Another aspect of this is grandfamilies where grandparents who are near retirement are raising grandchildren. Almost 20 percent of the 2.5 million grandparents who provide this type of care live in poverty.

When women take time out of the workforce to care for their children or their elder family member, their future Social Security benefits take a hit. For each year a woman, or a man for that purpose, does not work for pay the Social Security Administration includes a zero into the benefit calculation. According to SSA and about 20 other researchers that I spoke to this past week, that number still holds up.

Vice Chair Klobuchar. I am glad you prepared for this.

Ms. Hounsell. New studies are coming out from everywhere, it seems. Adding up all of these factors, women are worried about their financial security in retirement and savings, and they are really worried. Almost every survey shows that it is at the top of their fears.

And the end results of the whole of women's unique challenges is that when they hit their retirement years, they have 25 percent less retirement income. And as you have heard from everyone, it seems, twice the poverty rate of men. And that poverty rate jumps for single women and for single African American and Hispanic women.

So the question people are always asking me is: Men have all these challenges; why women? The main reason we need to stay focused on women are the shear volume of the numbers.

At age 65, there are over 6 million more women than men, and the expected growth in the population of the oldest old is expected to grow. Recently the National Institute on Aging redefined this age group, "85-plus" and they changed it to "Ages 90 and Older."

Estimates indicate these numbers will greatly increase as the Boomer population reaches very old age. By 2050, the number of nonagenarians will make up more than 10 percent of the population. The oldest-old population is mainly made up of women who live alone—24 men for 100 women.

So in the interest of time, I will just talk very quickly about four solutions that I think would actually help change the landscape. And that is:

Shoring up Social Security, doing what we need to do to make the program secure for everyone.

The private retirement system, especially because of the economy, we need to extend all those opportunities for people to save to part-time and temporary workers, of which there are many more people working in that manner.

Then there is the role of lifetime income products like immediate annuities and longevity insurance. And these are little understood, but they actually could play an important role in providing future retirement security for women.

And then care-giver credits. It is one of those things that has been talked about for decades. Study after study has looked at how the credit would work. And I think maybe its time has come. We certainly have the population that would be interested in such a policy option.

And finally, I would just like to say that while there are endless discussions about a correct solution, millions of Americans are just trying to achieve financial stability and protect their future.

Thank you.

[The prepared statement of Ms. Cindy Hounsell appears in the Submissions for the Record on page 46.]

Vice Chair Klobuchar. Thank you very much.

Ms. Greszler.

STATEMENT OF RACHEL GRESZLER, SENIOR POLICY ANALYST, ECONOMICS AND ENTITLEMENTS, CENTER FOR DATA ANALYSIS, THE HERITAGE FOUNDATION, WASHINGTON, DC

Ms. Greszler. Thank you for the opportunity to come here today and testify.

I would like to start by just saying that the views I express are my own and do not necessarily represent those of the Heritage Foundation.

I would like to focus my remarks on three considerations:

First, the challenges that younger women will face are likely to be different than those of current women retirees. Women have made substantial gains in education, income, and employment that will make them more secure in retirement; but younger generations will have to grapple with unsustainable entitlement problems, the massive federal debt, and a decline in marriage, all of which will create new challenges. Policies aimed at improving women's retirement security must take these changes into account.

Second, policymakers should focus on reforming Social Security and enabling greater personal savings to help improve women's retirement security.

And third, most importantly, a strong economy is the foundation for retirement security for men and women alike. Without a job and rising income, individuals cannot adequately save for retirement. In this area, the government can do more by doing less.

Among the challenges that women face in retirement is longer life expectancies, and historically they have earned less and worked less than men, and have also not had as much access to participation in employer-sponsored retirement plans.

Fortunately, women have made substantial gains in these areas. Women now earn more college and graduate degrees than men. Their incomes are rising compared to men, and they have equal access to and participation in employment-sponsored retirement plans.

While these gains will make women more secure in retirement, the daunting fiscal outlook will bring unique challenges. Defined benefit pensions are dwindling, and Social Security is massively underfunded.

Social Security must be reformed, beginning with common-sense proposals to preserve its solvency such as indexing the retirement age to life expectancy, and implementing the more accurate changed CPI.

Additionally, Social Security spousal benefit should be replaced with an earnings credit for parents who take time out of the labor force to raise children, and also a payroll tax credit for parents who continue to work while raising children.

One of Social Security's shortfalls is that it fails to keep some people out of poverty while providing the largest benefits to the wealthiest retirees. A flat benefit above the poverty level, and phased out for higher income earners, would improve Social Security retirement and would also minimize the resources extracted from the private sector.

And finally, Social Security should end its practice of penalizing individuals who work longer. Both the earnings test and payroll tax contributions for those who work beyond the normal retirement age should be eliminated.

In addition to Social Security reform, there are a number of ways the government can help enable greater personal savings. About 75 million employees, many of whom are self-employed and work for small businesses, do not have access to an employer-sponsored retirement plan. And among those who do have access, about 15 percent choose not to save.

The Automatic IRA proposal would increase access and enrollment in retirement savings plans. Under the Automatic IRA, employers would gain access to low or no-cost retirement plans, and automatic enrollment of their employees would increase participation.

This leaves the most important consideration for retirement security: a strong and growing economy. Regardless of age or gender, a strong and growing economy is fundamental to a secure retirement. It may seem obvious, but a study by the Center for Retirement Security found that the biggest determinant of retirement savings was employment.

More than one-half of low-income older individuals surveyed were not employed. Without a job, it is nearly impossible to save for retirement.

Today's employment market is weak. Although the unemployment rate has declined, much of that has been caused by workers dropping out of the labor force. While labor force participation is already near a 35-year low, policies such as the Affordable Care

Act are projected to reduce employment by about 2.5 million in 2024.

Lower employment means less retirement security. Sound fiscal and economic policies can spur job creation. Budgetary discipline would reduce fears of future tax hikes, encourage employers and entrepreneurs to expand operations, and repeal or reform of harmful regulations would reduce employers' cost of hiring workers.

In conclusion, it is important that policymakers consider proposals that will help both current and future generations of women retirees. This includes Social Security reform, as well as increasing personal savings.

But the single greatest thing the government can do to improve both men's and women's retirement security is to foster a strong and growing economy.

Thank you.

[The prepared statement of Ms. Rachel Greszler appears in the Submissions for the Record on page 55.]

Vice Chair Klobuchar. Thank you, very much.

Thanks to all of you. I am going to turn over my first round here to Congressman Delaney, and then we will go to Congressman Hanna. And then I will ask questions.

Representative Delaney. Thank you, Vice Chair Klobuchar, and thank you for organizing this hearing. This is an incredibly important topic, and I think it is really important to shine a spotlight on this topic because I think what has happened to women—we are thinking about this in the context of retirement, but it is really just kind of a manifestation of the injustices that women have dealt with their whole professional careers, and the additional burdens that women have had to bear in our society which in my opinion has been inequitable as it relates to women.

And now they are bearing an additional burden in retirement. So we have a series of, in my opinion, unfair and inequitable burdens that women have borne, and now we just have another example of it in retirement.

And I worry that it is still going on.

Ms. Greszler, you spoke about how more women are graduating from college and have advanced degrees than men, and I think last year it was 54 percent of college graduates were women and 58 percent of advanced degree graduates were women.

Yet, when you look at what is happening in corporate America when men and women are up for promotions to the level of vice president or manager, only 25 percent of those promotions go to women. And when they are up for promotions to the C Suite—in other words, the most senior executives of a company—only 13 percent of those promotions are going to women.

So it seems to me this inequitable behavior continues and persists, despite many of the gains that we talk about. What is your view as to why, despite the fact that—more than half of the graduates are women, and probably more than half of the new hires at companies are women, why do you think we are seeing such talent drain among women in the senior ranks? Which to me is a tragedy for our society because to not have half the population represented in the most senior policymaking positions in corporate America—forget about the fact that it is bad for women, which it is; it is bad for society—particularly in my own view, and this is just my own personal view, if you look at the skills men and women generally speaking have, the skills that women have in my opinion: better judgment, a better spirit of cooperation, and quite frankly better cognitive abilities—I have four daughters so I may be biased on this—I think society is losing a lot there.

So why do you think it is continuing to happen?

Ms. Greszler. I think one of the first factors is that if you look at what women are earning more college and graduate degrees in, a lot of those degrees are not in the highest paying fields of science, technology, engineering, and mathematics. So that plays a certain role.

As far as the promotions within the workplace, I think we need to encourage women to not take themselves out of the running. Perhaps they think they are going to have a family soon, and they don't know what that is going to look like, and so they kind of step back and do not promote themselves as they would. Also, women are less likely to ask for a pay increase and a promotion. And so we need to encourage women, and we do not want to make them believe these statistics of oh, you are just going to earn less than men so just take yourself out of the running, or do not push for that. That should not be a given.

You know, we should be encouraging that. And one policy I would like to caution against, particularly as a working mom with four young kids, is the Paycheck Fairness Act. I just fear that this would reduce opportunities for women, instead of enabling them. We can celebrate the gains that women have made over the past decades. They now have greater access to flexibilities and accommodations in the workplace, and I just think that policies like this could create one-size-fits-all jobs that match one-size-fits-all pay scales.

Representative Delaney. I appreciate your comments. I think we need those policies, quite frankly, based on some of the statistics.

But switching to the other panelists for a second, so we have talked about things to do. And they are, I would call them, policies that I think will benefit both women and men in retirement, right? Strengthening our important safety net programs, social insurance programs like Social Security, encouraging more personal retirement. And then we have the whole portfolio of things around workplace fairness and equality, which I touched on, which is worthy of its own discussion, in my opinion, but staying with retirement for a second, what are the specific things—laser-like focused things we can do to help women specifically with this retirement situation, which again the statistics are really tragic and in my opinion very unfair. What can we do to help women's issues in this narrow area of retirement security, specifically for women, as opposed to things that help both men and women.

Dr. Whitman.

Dr. Whitman. Women, as we know, are the primary care-givers of both children and older adults, and the number of older adults needing care is going to grow exponentially as the population ages.

So it is really important that employers have flexible work schedules and; other accommodations that allow women to stay attached to the labor force. Because if a woman quits her job to care for a loved one, often she loses hundreds of thousands of dollars in retirement security for her own future.

So we need to buck that up. We also need to help women and men remain in the labor force longer, if they are physically able to do so. And that includes ways to end age discrimination, ways to help people maintain their skills and training, and ways to help the long-term unemployed who are most likely to be older workers. All of those can have a really big impact on retirement security for women.

Representative Delaney. So it sounds like this care-giver policy to bolster and support care-givers really will help women materially. Thank you.

I don't know, am I out of time?

Vice Chair Klobuchar. If you want to ask another question——

Representative Delaney. Well I think Ms. Hounsell, did you have a comment?

Ms. Hounsell. I was just going to say that I think the population that I was talking about, what they are going to need, and other countries are considering this, is maybe a benefit when you reach that oldest old age, 85 or 90, that that will keep the worst from happening.

Representative Delaney. So just kind of a top-off benefit maybe for the people who hit that. Because they are exceeding any probably modeled expectations for their savings, et cetera, kind of like a way out of the money insurance plan.

Ms. Hounsell. Right.

Representative Delaney. Dr. Madrian.

Dr. Madrian. I think another policy that would be worth looking into is thinking about ways to promote the annuitization of defined contribution assets.

Representative Delaney. Right.

Dr. Madrian. A traditional pension gives you a monthly paycheck every year until you die——

Representative Delaney. Right.

Dr. Madrian [continuing]. But traditional pensions are increasingly only available to workers in the public sector. And everyone else is left with a defined contribution 401K-like pension plan; where annuitization is not typically a built-in feature of such plans.

Representative Delaney. Right.

Dr. Madrian. And women would really benefit from this for two reasons. Number one, longer life expectancy, and number two is: As individuals get older, half of them are going to start having diminished—diminished mental capabilities to manage their own assets——

Representative Delaney. Right.

Dr. Madrian [continuing]. And those are the people who end up being victims of financial fraud. And annuitization can help solve both of those problems at the same time.

Representative Delaney. So supporting care-givers, some kind of secondary program that maybe kicks in when someone has reached a particularly kind of elderly phase, and then this swap concept of defined contribution programs where they could be swapped more freely and transparently to annuity programs. Those are all three very good ideas. Thank you.

Vice Chair Klobuchar. Thank you, very much. Congressman Hanna.

Representative Hanna. Thank you. My goodness, what an important subject. I am struck by a number of comments, and I really appreciate the opportunity to hear a little bit of back-and-forth.

Ms. Greszler, to Ms. Whitman, you talked about Social Security to flat means-tested benefits. I am curious how you and your organization feel about that, Dr. Whitman?

Dr. Whitman. Thank you for the question, Representative Hanna. Obviously AARP feels very strongly that we need to put Social Security on solid footing for the future so that people can depend on it—not only for the current generation, but also for future generations.

So getting it financially healthy is really, really important. And I think there are a variety of ways to do that.

Representative Hanna. But to the specific point of Ms. Greszler, in terms of means testing?

Dr. Whitman. We have concerns in that everybody pays in at different rates, and we want to maintain at least some link between the contributions that people pay over time and the benefits that they receive.

Representative Hanna. Even though the means testing would ultimately make it more secure, I suppose, for everyone?

Ms. Greszler. The way in which I would support a means-tested benefit is through elimination of the payroll tax, with comprehensive tax reform, so it would no longer be a contributory system.

I think this would bring us closer to Social Security's original intent of protecting seniors against poverty in old age. As it is, it is providing pretty substantial benefits to a lot of people who do not need them at all and, you know, extracting more taxes over everybody's lifetime in order to do that.

We could better focus it through a flat poverty-level benefit that was the same for everybody. And for seniors who had significant non-Social Security income, that benefit would be phased out and in return they would pay lower taxes over their lifetime.

Representative Hanna. Do any of you feel as though we have gone through this—we talk about the sandwich generation, but there is a huge population who simply did not plan for retirement, and the advent of things like 401Ks, and vestiges programs that require you to work, in my view, much longer than you should have to be a vested person. It seems if you earn that money, you should get that money, and it should travel with you and maybe become a part of your 401K.

The idea that people are just now understanding the value of saving early, saving even as a child, a youth IRA type of thing would be beneficial because of the time value of money which Rockefeller so rightly pointed out.

So that the 130 percent of income that you need to retire with that Dr. Madrian, you mentioned, I think you mentioned that, that that seems like an impossibility with very low interest rates that we see today, coupled with, even though the stock market is doing well, you know, we have also seen long periods where it hasn't. We see underfunded pension programs. We see defined benefit programs with a lot of public employees, but somewhat less historically—although about half—where they are about the same rate as they have historically been but somewhat less.

All of that adds up to a very unprepared population of people, knowing that women live longer. This seems to me to be a real crisis, not just something that's—I know it's going on every day. I know I am blessed I can help with my own family, but so many people can't.

What do you see with AARP? I am thinking about women in poverty, and what is the percentage of people out there who rely on Social Security for up to 90 percent of their income? Do you know that?

Dr. Whitman. I can get it pretty quickly. But you're right, the fact that most people do not have an adequate nest egg means that the vast majority, and particularly older women as Dr. Madrian mentioned, are much more reliant on Social Security.

We need to get more people saving. Half the population cannot do it in an easy way through payroll deductions, as several on the panel have said. That is why we need to look at ways to encourage employers to offer retirement plans, be it through Auto IRA or, through the many states that are looking at work and save programs.

But the specific number is, without Social Security benefits almost half of older women would be in poverty.

Representative Hanna. Half?

Dr. Whitman. Half. 48.5 percent.

Representative Hanna. And with Social Security benefits?

Dr. Whitman. With Social Security benefits, it is down to 17 percent, I believe.

Representative Hanna. My time has expired. Thank you.

Vice Chair Klobuchar. Okay, very good. Representative Maloney has joined us.

Representative Maloney. Thank you so much for focusing on this important issue. I had two other hearings at the same time with votes, and I look forward to reading your comments in the transcript of this important hearing.

I really want to thank Vice Chair Klobuchar for bringing our attention to this important issue. I find too often women's issues are swept under the carpet, or ignored, or not paid any attention to at all, and that is why we have still 77 cents to the dollar in pay inequity, which has been stuck for well over three decades.

In 2010 when I had the great honor of chairing this Committee, I also honed in on some of these issues. And our staff report back then underscored the severe gap in retirement savings between men and women.

One thing that I find particularly disturbing, and I would like to ask any member of the panel to comment on it, is that all of these positions, whether it is 77 cents to the dollar, or your IRA account, or your Social Security, all of these financial things for which we are underpaid, or not paid as much, ends up in making, at the time that report said the largest segment of people living in poverty were older women. And I want to know if that is still the case, and why? Why do you think that is?

But furthermore, if you could comment on the 401K plan. In 2004 the median female worker approached retirement with $34,000 less than half of what her male counterpart had. And I am glad that the Committee and the Congress continue to examine this critical issue and look for ways to help Americans to prepare for retirement.

In my home City, a recent survey by our comptroller found that two-thirds of working adults are not enrolled in employer-sponsored retirement plans largely because many employers do not offer these plans. And as a result, more than half of more and more Americans are approaching retirement age without any savings. And as we have seen here today, far, far too many of them are widowed and single women.

The fact is that women live longer than men. Today a woman who reaches 65 can expect to live another 20 years. Yet, for many this prospect is a very fearful one, that they will outlive their retirement savings. And as Dr. Whitman in your prepared remarks testified, women incur greater health care expenses, and need expensive long-term support and care into older age. And I would just like to inject right now, with my colleagues, one of the great things about the Affordable Care Act is that women are no longer discriminated or denied insurance because they are pregnant or because they are female.

So my basic questions are:

What are the best steps we can take in Congress—and I open it up to everyone on the panel—to encourage employers to offer retirement savings plans so that workers are better prepared when they leave the workforce?

And also, how would President Obama's IRA proposal help women prepare for retirement, particularly those with low wage and part-time jobs?

And also, if you could comment on the contributing factors that make women the poorest, single, older women, the poorest members of our society? What a statement that is, a very disturbing statement to me.

In any event, I want to thank you all for being here, for your testimony, and for focusing some of your life's work on helping other women. As Madeleine Albright used to say, there's a very special place in hell for women who do not help other women, and I am very pleased that our Vice Chairwoman is one of the leading women in the United States in making sure that these issues are front——

Vice Chair Klobuchar. And not in hell right now.

[Laughter.]

But thank you.

Representative Maloney. Thank you for focusing on this. I think it is important, and I yield back and look forward to your answers.

Dr. Madrian. So I can speak to one of your questions, which was how the 401K system, or the private retirement savings system, impacts women.

I think the answer there is that the system itself is pretty neutral. Women and men are facing the same barriers to access, and conditional having access, women actually are more likely to save.

The biggest problem is, their pay is lower than men. So even if they are more likely to participate and contribute more, it is not enough to compensate for the fact that they are actually being paid less than men.

And then those lower assets have to stretch out over a longer period of time in retirement. So it is not surprising that if you are taking less money and it has to last longer, that women are then more likely to end up in poverty.

Representative Maloney. And then this lower pay also translates itself into lower Social Security payments, and also the issue of should women who stay at home get some type of compensation in their Social Security for the work that they are doing for the overall family.

I think another dynamic that is very important is that so many women are working, and that so many families—spouses, males and their children—are dependent on the income of the wife, or the spouse in this particular case. And that is another dynamic that is taking place in our society and impacting families overall.

So thank you so much. Yes, Dr. Whitman.

Dr. Whitman. I don't know if women helping women, or working on women's issues gets us to Heaven, but I appreciate your earlier comment.

[Laughter.]

I think the main problem with the retirement savings system can be summarized this way: Half of the population does not have the ability to save from every paycheck. Roughly half the population has no financial incentives through the tax system to save, and therefore roughly half the population when they reach close to retirement age has almost nothing saved.

And I think we really need to look at ways to enable more people to save through their workplace, provide more people incentives to save either through employer matches or, through adding to our tax code, refundable savers' credit. All of these can really help people as they age, because as we know, the defined contribution system is one of the predominant ways that people have assets that they can live on in retirement.

Ms. Hounsell. I wanted to just say something about all the women that work part-time, because twice as many women as men work part-time, and they also do not have access to savings even if they work someplace where there is a retirement account.

Representative Maloney. Thank you.

Vice Chair Klobuchar. All right. Well thank you.

I want to start where Representative Maloney ended and where you were just seizing on this about the issue of the retirement accounts and what we can do.

And I know you, Dr. Madrian, have done a lot of work in that area as well. So why don't we just start there. You have done a lot of research on this. Let's start with a business setting where they actually have 401K plans or something like that. Does anyone know how many, what percentage of women have access to that?

Dr. Madrian. So it is about half of the workforce overall, women and men, are in jobs that have a pension plan.

Vice Chair Klobuchar. So what can we do to make it easier for them to save, and get them to do it? Because sometimes I have had some younger employees that kind of pride themselves for not putting money away in it, and we keep trying to tell them they should. But anyway, so tell me what we can do.

Dr. Madrian. We know the answer to that question. The single most effective way to get people to save for retirement is through automatic enrollment. Automatically enroll them in a savings plan. And if they do not want to save, require them to opt out.

Plans that have automatic enrollment have savings plan participation rates ranging between 80 and 95 percent of employees.

Vice Chair Klobuchar. Do you know how many plans have that automatic enrollment?

Dr. Madrian. So automatic enrollment has been diffusing rapidly over the last several years among large employers. It is high, probably about 60 percent of workers in very large companies are at firms that have automatic enrollment. Small employers have been less likely to jump on the automatic enrollment bandwagon.

Vice Chair Klobuchar. Do you think part of that—I mean, I am sure part of it is trying to respect employee choice, but is part of it then if people do not enroll they do not have to do the matching funds? I am trying to figure out the motivation.

Dr. Madrian. That is certainly something you hear from some employers, yes.

Vice Chair Klobuchar. And so I know there have been attempts in Congress to make it mandatory-opt-out—is that how you call it?

Dr. Madrian. Yes.

Vice Chair Klobuchar. Do you think that would be helpful?

Dr. Madrian. Oh, it would certainly help. I mean you might get some political opposition from some quarters——

Vice Chair Klobuchar. Oh, really?

[Laughter.]

Dr. Madrian [continuing]. But it would help. We would be in good company. The UK has recently enacted a pension reform, doing this mandatory automatic enrollment. New Zealand has had this for several years. So, you know, it is the way other countries are going, and I think it is something worth thinking about.

Vice Chair Klobuchar. Are there other countries besides just those two that are doing it?

Dr. Madrian. Well some have mandatory enrollment, like Singapore or Australia.

Vice Chair Klobuchar. But we would be looking more at opt-out.

Dr. Madrian. I would guess that would be more politically palatable.

Vice Chair Klobuchar. Right. What other things can we do, short of that?

Dr. Madrian. Well, so I think the next thing is expanding access. So half the workforce is in a firm that offers a savings plan. So the real battle line is how do you get the other half of the workforce able to save for retirement, because payroll deduction is the single most effective way.

And most of those workers are either part-time, as Cindy pointed out, or they are working for smaller firms that do not offer a savings plan. And for smaller firms, a lot of those companies have the same challenge as individual retirees.

Joe's Pizza—Joe who owns Joe's Pizza on the corner—you know, probably does not have an MBA. He does not have a dedicated human resources staff that is trying to figure out optimal benefits packages for his employees. He has got all the challenges of the average investor.

So we need a simple way for employees who are working part-time, or working for small firms that do not have a savings plan, to save for retirement, either by having simple plans for those firms to offer, or by having an alternative that does not rely on the employer-sponsored savings plan, like a MYIRA or an automatic enrollment IRA product, or something like that.

Vice Chair Klobuchar. Um-hmm. Okay. Anyone want to add to those ideas? This is the idea of opt-out requirement, and then also which would have to be legislatively mandated, I think. And then this idea for people who do not have access to find some new vehicles to do that.

Dr. Whitman. I would also have employers use auto-escalation mechanisms, so that maybe they enroll you automatically at a low savings level, and then you have the opportunity to save a little bit of your income more each year.

This is what I used to tell my colleagues who would ask me for retirement advice. If you can save a piece of every raise you get, or take a piece of every cost-of-living increase and add that to your retirement savings, your contributions grow over time, and it can make a huge difference in your lifetime savings. And some employers are also looking at that, as well.

Vice Chair Klobuchar. Okay.

Ms. Greszler. I would just reiterate that automatic IRA because it captures both the increased access and the increased enrollment. It is something that would be easy for small employers that don't have the time, the education, or the resources necessary to go out into the private sector and pick a plan, and pay for all of that.

It would help those to be able to go there and get these plans. All they would have to do is to deduct it from their employee's pay with little to no cost for them. And if they did this through automatic enrollment, you significantly increase participation rates. So I think the automatic IRA could go a long way.

Vice Chair Klobuchar. What do you guys think about that?

Dr. Whitman. AARP supports the Automatic IRA, as well as other state-based programs that are trying to help more people to save for retirement.

Vice Chair Klobuchar. Okay. Anything more? Do you want to add anything, Ms. Hounsell?

Ms. Hounsell. I think the MYIRA is a great proposal. It's just that it's not expansive enough yet. And if that would be available to small business owners, or individuals, that would be a great opportunity for people.

Vice Chair Klobuchar. Okay, very good.

Then we are talking about another thing we can do here to shore up Social Security. Does someone want to walk into that? Dr. Whitman?

Dr. Whitman. Absolutely. We believe that we do need to shore up Social Security, not just for the current generation of retirees but for future generations.

If we look at the middle class in the future, they are going to need Social Security even more than today's retirees, largely because of the decline in defined benefit pensions and rising health care costs. So we absolutely must find a balanced solution to make sure that the program exists and is sustainable over the long term.

Vice Chair Klobuchar. Very good.

Dr. Madrian. We know how to solve the problems with Social Security from an economic standpoint. The biggest problem is the political will to do it.

So the way to restore sustainability to the Social Security system are a modest increase in taxes, a modest decrease in benefits—and that would be done in such a way that the burden falls most heavily on those who are receiving the highest level of benefits—and increase the retirement age.

And if we do all of those in small measures, and we do it today, then we can do them in small measures. And if we put it off, kick the can down the road for 20 years, then we are going to have to take much bigger steps and it is going to be much more painful politically and economically.

Vice Chair Klobuchar. Okay.

Ms. Hounsell.

Ms. Hounsell. Ditto.

Vice Chair Klobuchar. Ditto? Okay. Good.

Ms. Greszler.

Ms. Greszler. Within Social Security, I would just say that we need to focus any changes. We want to target those who are actually living in poverty. That is what the program was meant to protect against. And so if we are going to consider things like higher benefit levels as people age because they tend to have higher needs when they are older, it is not really the fact that they are older which makes them more susceptible to poverty; there are plenty of older people who are 90 years old and may be very wealthy. We need to be targeting the income level. That is what they need income for. And so I would caution against anything that says we are going to have a different measure of inflation, or something like that, for people once they hit 80 or 85 or 90. We need to target income so that Social Security can truly protect against poverty.

Vice Chair Klobuchar. Another thing we talked about was care-givers. We have gone through now Social Security. I think there is general agreement that we—probably disagreement on how to do it, but that we need to make it as strong as possible. But we have got to make it easier for people to get access to retirement plans on their own.

But also if they are in the workplace, to maybe require them, or try to get them to do it, make it easier for them, we will put it that way.

And then the other thing we have talked about is this particular strain on women for the most part, women who are care-givers to their kids and to their aging parents, and this whole long-term care issue.

Any ideas there? And do you think Congress should start looking at this more seriously? Dr. Whitman?

Dr. Whitman. Yes, please. This is a critical issue, especially for women. And I think you are right. It interacts greatly with their ability to save and to have a secure retirement.

If they have to take time out of the workforce and go into part-time work or, tap their IRAs in order to pay to take care of a loved one, that puts their own financial security at risk.

And right now we have very little support for people who need long-term services and supports, other than through the Medicaid program. While there are some states—and Minnesota is a shining example in this country of a state that is using its long-term services and support to deliver good quality care—we absolutely need to do more to help people finance long-term care costs that can be in the hundreds of thousands of dollars.

Vice Chair Klobuchar. Very good. Anyone else want to add anything more to that?

Ms. Greszler. I think that we all support child care/care-giver credit. I would just also like to say that we do not want to do anything that is going to penalize the women who do take time out of the labor force to care for children or for older people from being able to come back into the labor force.

And so as I mentioned before, if you have one-size-fits-all pay scales, and one-size-fits-all jobs, women are not going to be able to have the flexibility that might let them stay in the labor force while caring for somebody else. And then if they do take the time out, they are not going to be as likely to be rehired if the employers must pay one wage, just depending on what the title of the job is. They are going to be less likely to hire women who come in from time out of the labor force that men would be in otherwise.

Vice Chair Klobuchar. Very good.

Ms. Hounsell. I think the care-giver credit is much more important than the child-care credit.

Vice Chair Klobuchar. Okay. Right. Good. Well I have some follow-ups that I think I will put in writing.

Vice Chair Klobuchar. Among other things, I have to question my classmate from law school who happens to be the FBI Director on the Judiciary Committee next. But I want to thank you all for coming, and I really think this has been helpful.

I think usually you have these hearings and the statistics kind of roll over you, but I think these statistics are pretty mind boggling in terms of women as they are aging and living longer and just how they are going to be able to support themselves. And it really is a cry for strengthening Social Security moving forward and looking at the long-haul, and then also really trying to get into some of these retirement options and how we can strengthen them as well.

I really appreciate the civility of this hearing, and the tone, and how you guys clearly have looked at each other's work, or talked ahead of time, which I also appreciate, and know what each other's positions are. That has been very helpful as well.

Do you want to add anything, Mr. Hanna?

Representative Hanna. Do you mind if I ask some questions?

Vice Chair Klobuchar. Oh, not at all. No, no.

Representative Hanna. I am curious, Dr. Madrian, did you look at the current load of college debt? Has anybody considered that in terms of our ability to save? You know, the incomes we have not seen the growth, with college we have seen enormous growth. That is going to affect the dynamic of all of this.

The other thing I wanted to ask you, Dr. Madrian, is we talk about increasing the retirement age. And I was in an industry that, you know, at 55 years old in the type of work I was in, heavy construction, at 60, increasing the retirement age is just not a practical thing for so many hundreds of thousands of people in this country. How do you manage that, knowing that maybe that is something we need to talk thoughtfully about, with all the different dynamics of all the different types of employment out there?

Vice Chair Klobuchar. Before you answer it, I am going to turn this over to Congressman Delaney to close this out, but again I wanted to thank our witnesses. I have to go to Judiciary, but it was a very good hearing and I hope some good legislative ideas will come out of it. Thank you.

Representative Hanna. Thank you for indulging me.

Dr. Madrian. So to answer the first part of your question, I am not aware of any research—and I certainly have not conducted any—that tries to make a link between college debt when individuals are entering the workforce and their subsequent retirement savings. But I certainly think it stands to reason that if you have got to pay a lot of money to pay off your student loan, you are going to have less money to contribute to a savings account and to accumulate retirement savings.

And we know that starting early is the best way to save for retirement because of the power of compound—because of the power of compound interest. And I just blanked on your second question.

Representative Hanna. Oh, different——

Dr. Madrian. The retirement age, yes. Absolutely.

Representative Hanna [continuing]. Things people do for a living directly affects your ability to work less or more.

Dr. Madrian. Yes.

Representative Hanna. I was in heavy construction. I know masons that, and laborers, and carpenters, who at 55 years old simply cannot compete in their trade. And they certainly should not have to move into some menial labor to survive. It just does not seem——

Dr. Madrian. The fact of the matter is, to make the system sustainable if you are going to allow people to retire at 55, you are going to have to have——

Representative Hanna. Well, no. I mean how do you manage that within all of that?

Dr. Madrian. Higher taxes. I think the way you manage it is to think of some—to help workers with a transition strategy from those jobs, those more physically demanding jobs that they may not be able to handle once they get to a certain age.

Representative Hanna. So the bottom line is, growing our economy, getting people better wages, learning to save earlier, more, and having a target like you talked about, education, all of that, is really something that as a society we need to develop, focus on, and understand how critical it has become.

Dr. Madrian. Those issues are all related, and it would behoove us to think of the interconnections. Absolutely.

Representative Delaney [presiding]. Well I have no further questions. I want to join with my colleagues in thanking you all for your terrific testimony here today. It was all very interesting and very informative.

There is a fair amount of agreement, obviously, as Congressman Hanna said: a renewed focus on retirement, a renewed focus on making minor calibrations to some of our most important kind of safety net social insurance programs like Social Security; the sooner we do them the better and easier it will be to do.

A fair amount of emphasis on care-givers. But it is still a great reminder to me that a lot of work needs to be done as it relates to parity and equality with respect to women in the workforce. Because this issue that we are talking about here, which is so terribly important, is in part based on some unique aspects of the fact that women in fact live longer than men do, and that makes this issue a more acute issue.

It makes it a more acute issue for everyone who lives long these days, but it also reflects, in my opinion, the deep injustice that continues to affect women in the work force, particularly as they bear so many burdens in our society. Because, you know, women are my heroes because they do so many things in our society that in fact men do not do. They care for children more. They care for elderly Americans more. And they deserve equal and fair treatment in the work force when they pursue their careers.

So this hearing, again, underscores the importance of that. So I just want to thank everyone for being here and for participating in this important discussion. And unless Congressman Hanna has anything else, we will conclude the hearing.

(Whereupon, at 11:29 a.m., Wednesday, May 21, 2014, the hearing in the above-entitled matter was adjourned.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE RICHARD HANNA

Experience shows a strong economy is the foundation of a secure retirement. Workers with good jobs and adequate savings are better prepared to enjoy their retirement years. Women tend to live longer than men so a strong and vibrant economy is even more critical to providing them with a secure retirement.

Unfortunately, our sluggish economy and aging population threaten our nation's future retirement security.

As Chairman Brady has observed, America has fallen into a "growth gap." Our economy is growing at half the rate of previous recoveries. That means we are falling further behind in terms of jobs and income, relative to where we should expect to be.

Fewer jobs and less income mean Americans will be less prepared for retirement. Older workers who lose their job often retire before they are ready. That means lower Social Security benefits and less retirement savings. Spreading fewer resources over more years, results in a less secure retirement.

Our nation's population is also getting older. As the youngest Baby-Boomers enter their retirement years, we will undergo a dramatic demographic shift. The ratio of workers to retirees will shift from roughly three-to-one to only two-to-one.

This demographic shift will undermine the pay-as-you-go financing of Social Security and Medicare. As a result, neither program will be able to pay its promised benefits.

Our continuing growth gap and looming entitlement crisis will adversely affect every American, but especially women.

Women typically have lower lifetime earnings and longer life expectancies than men. Women are also less likely to be covered by an employer pension plan. As a result, they are at greater risk of falling into poverty during their retirement years.

To improve the retirement security of women, we must understand the nature and extent of the problem.

As we focus on the topic of today's hearing, we must not lose sight of the fact that a growing economy creates more jobs, higher wages, and greater retirement security for both men and women.

Economic growth alone cannot provide a secure retirement or prevent the insolvency of our entitlement programs. But without more growth, our task will be that much harder.

We have a distinguished panel of witnesses today, including a former member of the Joint Economic Committee staff, Mrs. Rachel Greszler. I look forward to each of our witnesses' testimony and hope we gain important insights than can help us address this important issue.

AARP
Real Possibilities

STATEMENT FOR THE RECORD

SUBMITTED TO THE

JOINT ECONOMIC COMMITTEE

On

Women's Retirement Security

May 21, 2014

AARP
601 E Streets, N.W.
WASHINGTON, D. C. 20049

For further information, contact:
Cristina Martin Firvida
(202) 434-6194
Government Affairs

On behalf of our members and all Americans age 50 and over, AARP would like to thank Vice Chair Klobuchar for inviting us to testify and for convening along with Rep. Hanna, and the other members of the Joint Economic Committee here today, this important hearing on "Women's Retirement Security."

Background

Women are at greater financial risk in retirement than men. Compared to men, women generally must finance more years of retirement because of their longer life expectancies (about 5 years longer at birth and almost 3 years longer at age 65[1]), and most do so with less income and retirement savings. Complicating matters further, older women are more likely than older men to live alone and need long-term services and supports such as a nursing home; they also tend to incur greater out-of-pocket health expenses. Older women, as a result, are more likely than men to live in poverty and outlive their savings.

The official poverty measure in 2012 shows about 11 percent of women aged 65 and older were in poverty compared to less than 7 percent of older men. These numbers, however, mask significant differences across groups. For example, the poverty rates for older African American (21 percent) and Hispanic women (22 percent) are more than twice that of older white women (9 percent). And older women who never married (23 percent) or who became divorced, separated (19 percent) or widowed (15 percent), are three to five times more likely to be in poverty than married women (5 percent).[2]

The official poverty measure understates the true economic status of older women, in large part because it does not account for out-of-pocket (OOP) health care costs, which can be substantial for older Americans. These costs rise significantly as people age.

Among Medicare beneficiaries, median OOP costs accounted for about 12 percent of the income of men and women aged 65 to 69, but almost 25 percent of those aged 85 and older.[3] And women of all ages on Medicare had median OOP expenses of 19 percent of their income compared to 14 percent for men. Moreover, these costs have grown faster than inflation and are expected to continue to do so in the future, placing more pressure on older women's limited income.

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[1] Table 21, "Life expectancy by age, race, and sex: Death-registration states, 1900-1902, and United States, 1929-1931 to 2009," in National Vital Statistics Reports, Vol. 62, No. 7, *United States Life Tables, 2009*, National Center for Health Statistics, January 2014 at http://www.ssa.gov/OACT/TR/2012/lr5a4.html.

[2] Alison Shelton, Social Security: A Key Retirement Resource for Women, (AARP Public Policy Institute, April 2014), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2014/social-security-key-resource-for-women-AARP-ppi-econ-sec.pdf.

[3] Claire Noel-Miller, Medicare Beneficiaries' Out-of-Pocket Spending for Health Care (AARP Public Policy Institute, December 2013), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/health/2013/medicare-beneficiaries-oop-spending-AARP-ppi-health.pdf.

The U.S. Census Bureau's new supplemental poverty measure (SPM) – which takes out-of-pocket medical expenses into account – throws more light on the plight of many older women. The new measure shows about one in six older women were in poverty in 2012.[4] The poverty rate for never-married women aged 65 and older rose to more than one in four (29 percent) after accounting for OOP expenses, among other factors, and to over one in five for older divorced or separated women (21 percent) and widows (21 percent).[5]

In addition, poverty measures do not account for debt. Recent research has found that the number of older families carrying debt and the amount of that debt has increased sharply over the past two decades and the rate of increase rises with age.[6] This puts women's retirement security at greater risk. Mortgage debt accounts for the largest share of the increase, followed by increasing amounts of credit card debt and education debt. Rising mortgage debt increases the risk of foreclosure. The recent mortgage market crisis affected millions of older homeowners and more than 1.5 million Americans age 50 and older lost their homes.[7]

These figures paint a different picture of elderly poverty than that typically reported in the press. The poverty threshold is a low bar that understates the problem many older women face in their daily struggle to hold on to their standard of living.

Despite notable labor market gains over the last few decades, most experts expect women to continue to struggle to finance adequate living standards in retirement. The challenges may in fact grow because of rising health care costs and increasing life expectancy.

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[4] Beginning in 2011, the U.S. Census Bureau began publishing a supplemental poverty measure (SPM). The SPM operationalizes a number of recommendations made by the National Academy of Sciences to modernize the poverty measure. In particular, the SPM not only adjust the poverty threshold for family size and composition, but it also accounts for geographic variation in housing costs and reflects rising living standards. The new measure also adopts a broader measure of resources available to families – for example, it includes the refundable earned income tax credit and near-cash sources of income like Supplemental Nutritional Assistance Program. The SPM also deducts from income a family's expenditures on medical care and necessary expenses to hold a job. For more details and the source of the poverty estimate, see Kathleen Short, The Research Supplemental Poverty Measure: 2012, (U.S Census Bureau, November 2013), at http://www.census.gov/prod/2013pubs/p60-247.pdf.

[5] AARP Public Policy Institute's estimates of the SPM poverty rates using the U.S. Census Bureau's 2012 Supplemental Poverty Measure research file.

[6] Lori A. Trawinski, Assets and Debt across Generations: The Middle-Class Balance Sheet 1989-2010, (AARP Public Policy Institute, January 2013), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/security/2013/middle-class-balance-sheet-1989-2010-AARP-ppi-sec-pdf.pdf.

[7] Lori A. Trawinski, Nightmare on Main Street: Older Americans and the Mortgage Market Crisis, (AARP Public Policy Institute, July 2012), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/cons_prot/2012/nightmare-on-main-street-AARP-ppi-cons-prot.pdf.

Gains in life expectancy have not been shared evenly, however. For both men and women, the more affluent and educated have gained the most, while the poorest have gained much less. In some cases longevity is actually declining. Recent research found that white women without a high school diploma actually lost five years of life expectancy between 1990 and 2008.[8] Differences by race also persist. In 2009, white women had a life expectancy at birth that was more than three years longer than that projected for black women.[9]

The Basis for Retirement Income: Earnings

Women's employment and earnings have risen significantly over the past several decades. The share of women aged 16 and older in the labor force – either working or looking for a job – has grown from about one in three in 1950 to almost 6 in 10 in 2013. While men are still more likely to be in the labor force, the gap between men and women has closed considerably. In 1950, men were more than twice as likely to be in the labor force as women (86 percent versus 34 percent). Today, about 57 percent of women are in the labor force compared to 70 percent of men. Even within households, the dynamics of employment and earnings are changing: working wives earn more than their husbands in nearly four in ten families (38 percent).[10]

Despite their growing contributions to household earnings, women continue to be primary caregivers for young children, aging parents, and other family members or friends.[11] These responsibilities can have a significant, negative impact on women's long-term financial security.

Largely because of caregiving responsibilities, women are more likely than men to work part-time; they also tend to spend more years out of the labor force and generally have shorter careers. They are also more likely to work in lower-paying occupations than men and may pass up promotional opportunities.[12]

These gender differences in employment – earnings, job type and tenure – help explain why older women typically receive less than older men from the three traditional sources of retirement income: Social Security, pensions, and individual savings.

[8] S. Jay Olshansky, Toni Antonucci, et al., Differences in Life Expectancy Due To Race and Educational Differences Are Widening and Many May Not Catch Up, (Health Affairs 31, No. 8 (2012): 1803-1813).
[9] E. Arias, United States Life Tables, 2009, National vital statistics reports; vol 62 no 7 (National Center for Health Statistics, 2014), at http://www.cdc.gov/nchs/data/nvsr/nvsr62/nvsr62_07.pdf.
[10] U.S. Department of Labor, Bureau of Labor Statistics, data is from http://www.bls.gov/cps/wives_earn_more.htm.
[11] Lynn Feinberg, Susan C. Reinhard, Ari Houser, and Rita Choula, Valuing the Invaluable: 2011 Update – The Growing Contributions and Costs of Family Caregiving (AARP Public Policy Institute, June 2011), at http://assets.aarp.org/rgcenter/ppi/ltc/i51-caregiving.pdf.
[12] U.S. Department of Labor, Bureau of Labor Statistics, *Women in the Labor Force: A Data Book*, 2013, at http://www.bls.gov/cps/wlf-databook-2012.pdf.

- Social Security benefits are based on a person's average lifetime earnings. Workers with higher lifetime earnings receive more retirement benefits than workers with lower lifetime earnings. In April 2014, the average monthly retirement benefit was more than 20 percent lower for women ($1,139) than men ($1,456).

- Jobs in low-paying industries are less likely to offer retirement plans than other jobs, and part-time workers are less likely than full-time workers to be covered by a retirement plan. As a result, women have historically been less likely to participate in an employer-provided retirement plan.[13]

- Lower earnings limit the ability of women to save for retirement. Median retirement assets for female workers near retirement age (55 to 64) are estimated to be half that of their male counterparts ($34,000 vs. $70,000).[14]

Social Security: The Foundation to a Secure Retirement

Social Security benefits are an important source of income for all older Americans, but they are critical to the economic well being of older women. In 2012, Social Security benefits kept 15.3 million Americans aged 65 and older —9 million of them women—out of poverty. Without Social Security benefits almost half of older women (48.5 percent) would have been in poverty.[15]

Because older women have fewer sources of other retirement income, they are more dependent on Social Security benefits. Social Security is currently the principal source of family income for 53 percent of older women, and nearly the only source (90 percent or more) of family income for about one in four women, compared to about one in five older men.[16]

Three features of the Social Security program provide particularly important protections for women: benefits are progressive, guaranteed for life, and increase with inflation. Social Security benefits replace a higher portion of preretirement earnings for low

[13] C. Copeland, Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2012, (Employee Benefits Research Institute, IB No. 392, November 2013), at http://www.ebri.org/pdf/briefspdf/EBRI_IB_011-13.No392.Particip.pdf.
[14] L. Papke, L. Walker, M. Dworsky, Retirement Security for Women: Progress To Date and Policies of Tomorrow, (Retirement Security Project No. 20081), at http://www.brookings.edu/~/media/projects/retirementsecurity/03_retirement_women.pdf.
[15] Mikki Waid, Social Security Keeps Americans of All Ages out of Poverty: State-Level Estimates, 2010-2012, (AARP Public Policy Institute, February 2014), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2014/social-security-keeps-americans-out-of-poverty-AARP-ppi-econ-sec.pdf.
[16] Alison Shelton, Social Security: A Key Retirement Resource for Women, (AARP Public Policy Institute, April 2014), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2014/social-security-key-resource-for-women-AARP-ppi-econ-sec.pdf.

earners than high earners. Because women are more likely to be lower lifetime earners than men – either because of low wages or limited work histories or both – Social Security benefit's progressivity is a key component to keeping women out of poverty.

Social Security is the only source of guaranteed lifetime income for most Americans, which is an important protection for women because of their greater longevity. This protection is reinforced by automatic cost-of-living adjustments, another feature of Social Security that most retirement programs do not provide. Because women tend to live longer than men, this guaranteed stream of inflation-adjusted lifelong payments provides the basis of financial support for women as they age, even as other financial assets are exhausted and expenses, like health care costs, continue to rise.

Social Security's long-term financial challenges, if left unaddressed, will impact women's retirement security. The Social Security trustees report that the program has sufficient income from payroll contributions and assets in Treasury notes to pay 100 percent of promised benefits for the next 20 years, and even with no changes, can continue to pay approximately 75 percent of promised benefits thereafter. Social Security is therefore not in an immediate crisis, but the projected funding gap should be closed. The scheduled reduction in benefits would have serious negative consequences for older women because of their greater reliance on Social Security benefits.

AARP believes that the current shortfall should be addressed sooner rather than later, so that the program's fundamental structure and the protections it offers to almost all workers and their families can be protected. How this shortfall is addressed will be crucial to women's future retirement security. For example, reducing Social Security's cost-of-living adjustment, on which older women are so dependent because of their longer life expectancy, will cause women to fall further behind, and push many into poverty.

Changes to the Social Security system must be made within the proper framework of maintaining and improving the retirement security of real people and protecting current beneficiaries who have paid into the program during their working lives. Social Security deserves its own national conversation that focuses on preserving and strengthening the retirement security of Americans and their families for generations to come. AARP welcomes that conversation and stands ready to engage with Congress, our members and other Americans on ways to strengthen Social Security now and in the future.

Moving from Traditional Pensions: Implications for Women

Employer-provided retirement plan coverage in the private-sector work force has generally hovered around a modest 50 percent for decades.[17] Underlying this relatively flat level of coverage has been a dramatic shift from defined benefit (DB) pensions to defined contribution (DC) plans (retirement savings plans like 401(k)'s). In 2012, about 21 percent of workers who participated in an employer plan had a DB as their primary plan compared to 57 percent of workers in 1988.[18]

The movement from DB plans to DC plans has important implications for retirement security. Under a defined benefit plan, the employer or provider bears the risks associated with longevity, investment returns, and interest rates. Participation is usually automatic. Under a defined contribution plan, it is the individual who must choose to participate and who bears all the risk. On the other hand, DC plans offer greater portability between jobs, quicker vesting, and faster accrual of benefits. These features may be important to women who have shorter job tenure and interrupted careers.[19]

Two consequences of the shift away from defined benefit to defined contribution plans, particularly for women, are (1) the loss of automatic life annuities through employer-based plans and (2) the loss of spousal consent for the type of distribution being made from these plans.

Defined benefit plans must offer a life annuity as the default payout option. As such, annuities have historically been the predominant type of distribution from DB plans. More plans are offering lump-sum distribution options, however, as employers seek to reduce pension liabilities and take advantage of favorable interest rate assumptions Congress permitted in the Pension Protection Act of 2006. Very few 401(k) plans or other types of DC plans offer a life annuity option. Even in those that do, participants rarely choose this option.[20]

In the case of a married couple, defined benefit plans must pay benefits as a life annuity with survivor benefits for the spouse (i.e., joint and survivor annuity) unless the spouse consents to waive the survivor benefit. This requirement helps improve the

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[17] C. Copeland, *Employment-Based Retirement Plan Participation: Geographic Differences and Trends*, 2012, (EBRI Issue Brief No. 392, Nov. 2013).
[18] C. Copeland, Retirement Plan Participation: Survey of Income and Program Participation (SIPP) Data, 2012 (EBRI Notes, August 2013), at http://www.ebri.org/pdf/notespdf/EBRI_Notes_08_Aug-13_RetPart-CEHCS1.pdf..
[19] L. Papke, L. Walker, M. Dworsky, Retirement Security for Women: Progress To Date and Policies of Tomorrow, (Retirement Security Project No. 20081).
[20] Carlos Figueiredo and Sandy Mackenzie, Older Americans' Ambivalence Toward Annuities: Results of an AARP Survey of Pension Plan and IRA Distribution Choices, (AARP Public Policy Institute, April 2012), at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2012/survey-pension-ira-distribution-AARP-ppi-econ-sec.pdf.

adequacy of married women's retirement income. By comparison, DC plans do not have a default distribution option, and workers generally may take distributions as a lump sum or in installments without the spouse's consent.[21]

AARP believes more DC plan sponsors should offer fixed life annuities as a distribution option. Doing so will give women additional protection against outliving their retirement assets and old-age poverty. Adding spousal consent requirements could also increase the proportion of workers taking distributions in the form of annuities, further enhancing women's retirement security.

Retirement Savings among Women: Challenges and Opportunities

Increasing retirement savings can play a pivotal role in improving women's retirement security. Policies that increase women's access to a workplace retirement plan, increase the adoption of automatic plan enrollment and automatic escalation of worker contributions, and strengthen tax incentives for retirement savings, can help encourage more women to save more.

Improving Coverage is a Crucial First Step

Roughly one in two US workers does not have access to a workplace retirement plan. This translates into millions of Americans without the ability to save for retirement at work through payroll deduction. This is especially the case among small business employees. A recent US General Accountability Office (GAO) study[22] found that only about 14 percent (one-in seven) of businesses with 100 employees or less offer their employees such a plan and that between 51 percent and 71 percent of the roughly 42 million people who work for a small business lack the ability to save for retirement at work.

Access to a workplace retirement plan is very important for building retirement security. A recent Boston College Center for Retirement Research paper[23] found that access to a workplace retirement savings plan or pension is second only to having a job as the most important factor in helping moderate-to-low income individuals build retirement security.

[21] If a participant elects an annuity payout within a DC plan, they are required to take a joint and survivor annuity unless the spouse waives the survivor annuity.
[22] "RETIREMENT SECURITY: Challenges and Prospects for Employees of Small Businesses," Statement of Charles A. Jeszeck, Director Education, Workforce, and Income Security, GAO-13-748T, July 16, 2013, at http://www.gao.gov/assets/660/655889.pdf
[23] A. Yanyuan Wu and Matthew S. Rutledge, Lower-Income Individuals Without Pensions: Who Misses Out and Why, (Boston College Center for Retirement Research working paper CRR WP 2014-2, March 2014), at http://crr.bc.edu/working-papers/lower-income-individuals-without-pensions-who-misses-out-and-why/

AARP has long advocated that all workers should have access to a dedicated retirement plan tied to their workplace. We support Automatic IRA legislation, which would provide an easy and low-cost method for employees to save in an Individual Retirement Account through payroll deduction. AARP also supports ongoing state efforts to extend "work and save" plans to private-sector employees that currently lack access to a workplace retirement savings plan. We believe these efforts, in addition to expanding coverage, will also promote innovation in the benefits being offered to workers.

Expanding access to a workplace retirement savings plan, while necessary for improving retirement security, is only a first step.

Automatic Savings

The growing importance of DC savings plans has raised questions about the capability of individuals to make savings and asset allocation decisions that will lead to a financially secure retirement. Evidence shows that many individuals when faced with these complicated decisions will not take any action. Automatic enrollment and automatic escalation are recent DC plan innovations that help workers overcome these obstacles to saving.

Under automatic enrollment, participants are automatically enrolled in the plan at a default contribution rate – typically 3 percent[24] – unless they elect otherwise. Automatic enrollment not only increases savings plan participation rates on average, but it also equalizes the disparities in participation rates across demographic subgroups. Automatic enrollment gets more people saving earlier and consistently for retirement. About 47 percent of DC plans had automatic enrollment feature in plan year 2012.[25]

One concern with automatic enrollment is that plan participants often stay at the default contribution rate, and that 3 percent is too low. This means that many automatically enrolled participants will not save enough for a secure retirement. Automatic escalation can help overcome this obstacle by increasing contributions over time unless the participant elects otherwise.

Research shows that plan participants who are automatically enrolled are generally no more likely to stop contributing than other participants.[26] And plan participants generally favor automatic saving features.[27]

[24] Profit Sharing Council of America, 56th Annual Survey of Profit Sharing and 401(k) plans, (2013), table 116.
[25] Ibid. Table 113.
[26] James J. Choi, David Laibson, Brigitte C Madrian and Andrew Metrick, Saving for Retirement on the Path of Least Resistance, (2006). In Edward J. McCaffrey and Joel Slemrod, editors, *Behavioral Public Finance: Toward a New Agenda*, New York: Russell Sage Foundation, pp. 304-351.

AARP believes that, given their success, all plans should be encouraged to adopt automatic saving features. In addition, plans should be encouraged to use low-fee default investments made up of index funds and similar investments so that less money goes to fees and more to building plan balances. Taking both steps will improve savings and the overall economic security of future retirees.

Improving Tax Incentives

Congress has provided tax incentives for retirement savings to (1) encourage private savings in a dedicated fund for retirement, (2) help overcome obstacles to retirement savings such as current consumption and debt repayment, (3) increase the amount of savings in the retirement system at any given time, and (4) increase national savings and economic growth. These incentives have increased retirement savings, largely by encouraging employers to provide their employees with a payroll deduction funded retirement savings plan.

AARP believes tax incentives for retirement savings should be strengthened. In particular, existing incentives are not sufficient for low- and moderate-income workers who often face the greatest obstacles to saving for retirement. One way to strengthen incentives to save is through an improved and expanded Saver's Credit. Improvements to the Saver's Credit could include expanding income limitations, eliminating the "cliffs" in the credit, making it refundable, and directly depositing the credit into a worker's retirement account.

Importance of Working Longer

Earnings are becoming a more important source of "retirement" income for older Americans. In 2012, earnings accounted for 30 percent of the total income of people aged 65 and older; double what it was in 1990.[28] The rising importance of earnings for older Americans reflects their growing attachment to the workforce – particularly for those who simply cannot afford to retire: The share of men and women aged 65+ working or looking for a job rose from 12 percent in 1990 to 19 percent in 2013.[29]

[27] In a Retirement Made Simpler survey of employee attitudes towards automatic enrollment, 98% of those who were automatically enrolled agree with the statement "You are glad your company offers automatic enrollment," at http://retirementmadesimpler.org/Library/FINAL%20RMS%20Topline%20Report%2011-5-07.pdf.
[28] Ke Bin Wu, Sources of Income for Older Americans, 2012, (AARP Public Policy Institute, December 2013) at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2013/sources-of-income-for-older-americans-2012-fs-AARP-ppi-econ-sec.pdf.
[29] Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, at http://data.bls.gov/pdq/querytool.jsp?survey=ln

The percentage of women nearing retirement age (55 to 64) who are in the workforce has also increased substantially over the last 20+ years – rising from 45 percent in 1990 to 59 percent in 2013. By comparison, the share of men aged 55 to 64 in the labor force has remained relatively flat over this period (rising from 68 percent to 70 percent).[30]

The economic benefits of working longer are significant, particularly as life expectancies increase for much of the population. Working longer reduces the number of years a person's savings must cover. Also additional earnings can lead to greater Social Security benefits, provide more opportunity to continue to save, and result in additional pension credits. According to an Urban Institute study, working an additional year increases annual retirement income by, on average, about 9 percent.[31]

Working longer requires not only the willingness to work but also the ability to do so, which may be outside a person's control due to job loss, caregiving responsibilities, or poor health. The availability of more flexible work schedules might enable more older workers, particularly women who bear the bulk of caregiving responsibilities, to stay attached to the labor force longer.

A longstanding AARP priority has been to fight age discrimination in the workplace. About two-thirds (64 percent) of older workers think that older workers face age discrimination in the workplace. Moreover, about one-third (34 percent) report that either they personally faced age discrimination in the last four years, or know someone who has.[32] Most recently, AARP has been working to enact bipartisan legislation to clarify and restore well-established legal standards on workplace discrimination.[33] AARP also supports regulatory and legislative measures to prohibit discrimination against job seekers because they are or have been unemployed. Discrimination against the long-term unemployed has become a growing problem as their ranks have swelled in the aftermath of the Great Recession. Roughly half of older job seekers aged 55 and older are long-term unemployed – out of work for at least 27 weeks – a percentage that is higher than it was at

[30] Ibid.

[31] B. Butrica, K. Smith, and C.E. Steuerle, Working for a Good Retirement, 2006, (The Urban Institute, The Retirement Research Project Discussion Paper 06-03).

[32] AARP, *Protecting Older Workers Against Discrimination Act: National Public Opinion Report* 6 (June 2012), *available at* http://www.aarp.org/content/dam/aarp/research/surveys_statistics/work_and_retirement/powada-national.pdf.

[33] For decades, if an older worker was able to prove that age discrimination was one motivating factor in an adverse employment decision – even if other, legal motives also played a role – the employer had to prove that it would have taken the same action even absent its illegal age discrimination. But in 2009, a U.S. Supreme Court decision imposed a much higher burden of proof on older workers, making it far more difficult for workers to vindicate their rights, and far easier for employers to discriminate against them. Last year, the Court imposed the same heightened burden of proof in cases where employers retaliate against workers who challenge discrimination based on race, sex, or other grounds. The Protecting Older Workers Against Discrimination Act (S. 1391, H.R. 2852) would address these decisions and re-level the playing field for worker who have been discriminated against or retaliated against on the job.

the end of the Great Recession in 2009.[34] Older women, and particularly older women of color, often face the prospect of discrimination based on multiple grounds.

Conclusions

Women face the reality of long lives, often with few financial resources to fall back on. It is not surprising, then, to find that boomer women nearing retirement are less confident than boomer men about having enough money to live comfortably in retirement (60 percent of women were not too confident or not at all confident compared to 51 percent of men). They are also more concerned about their ability to maintain a reasonable standard of living in retirement, depleting their savings, or being able to afford to stay in their current home for the rest of their lives.[35]

Improving women's retirement security requires a multi-pronged approach that addresses the underlying dynamics of their retirement income. This approach includes: (1) strengthening Social Security; (2) providing greater access to automated workplace retirement plans that offer fixed annuity payout options; and (3) encouraging and enabling longer working lives.

[34] These figures were calculated by AARP Public Policy Institute using data from the Bureau of Labor Statistics, Labor Force Statistics, Table A-36 in Employment and Earnings Online at http://www.bls.gov/opub/ee/home.htm.

[35] S. Rix, Boomer Women Feeling More Financially Insecure than Men, (AARP Public Policy Institute, October 2012) at http://www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2012/boomer-women-feeling-financially-insecure-AARP-ppi-econ-sec.pdf.

The Retirement Savings Landscape for Women

Remarks by

Brigitte Madrian

Aetna Professor of Public Policy and Corporate Management

Harvard Kennedy School

Prepared for the Hearing

"Women's Retirement Security"

JOINT ECONOMIC COMMITTEE

Wednesday, May 21, 2014

Thank you for the opportunity to speak to you today and share my thoughts on how we can strengthen America's retirement savings system. By way of background, I am the Aetna Professor of Public Policy and Corporate Management at the Harvard University John F. Kennedy School of Government. I have spent the past 15 years studying employer sponsored savings plans and the types of policy interventions and plan design features that can improve savings outcomes. There is much concern in both academic and policy circles about whether our current private defined contribution retirement savings system can adequately meet the retirement income needs of individuals.

My early research on automatic enrollment documented how small changes in plan design can have a large impact on savings outcomes. This research provided the impetus for the measures incorporated in the Pension Protection Act of 2006 that encourage employers to adopt automatic enrollment as part of their employer sponsored savings plans. There are many other measures that can further strengthen the private defined contribution savings system in the U.S. for both men and women.

In examining the retirement security of women in the U.S., there is both good news and bad news. Saving for retirement and then managing one's asset in retirement is one of the largest, if not the largest, financial task that any household will undertake. Yet recent evidence on the financial capabilities of the U.S. population show that we as a nation are woefully unprepared for this task, and that women fare worse than men.

Women have significantly lower scores than men on a simple 5-question test designed to assess knowledge of basic financial concepts such as inflation, compound interest, and the value of diversification. This is true for both married and single women. Interestingly, women are not much more likely to give incorrect answers than men; instead, they are much more likely to answer, "I don't know" (FINRA Investor Education Foundation 2013).

Women are also substantially more likely than men to report that it would be difficult for them to come up with $2000 to meet an unexpected expense within the next 30 days (44% for women vs. 34% for men; FINRA Investor Education Foundation 2013). Women are also more likely than men to report difficulty with paying bills than men (57% for women vs. 47% for men; Theodos et al. 2014).

But as women approach retirement, some of this gap narrows. There is some evidence to suggest that married women become more financially literate as they age in response to the likelihood that they will outlive their husbands and need to assume sole management of the household finances (Hsu 2011).

Planning for retirement is not an activity engaged in by the majority of either women or men; on the retirement planning front, there are no substantive differences by gender, with 43% of both men and women having planned for retirement (Theodos et al. 2014), although a slightly higher fraction of men than women actually report having some retirement savings (63% for men vs. 58% for women; Theodos et al. 2014).

The fraction of the population working for an employer that sponsors a retirement plan is relatively similar for men and women, about half, according to a 2012 report by the Employee Benefit Research Institute (Copeland 2012). The fraction participating in an employer sponsored savings plan is also similar for men and women (Copeland 2012). This latter finding is corroborated by a recent Vanguard report, "How America Saves: 2013," which shows that differences in savings plan participation rates by gender are not sizeable when comparing all men and all women eligible to participate in their employer's savings plan. In some years, women have a slightly higher participation rate than men, and in others, men have a slightly higher participation rate than women. This apparent parity, however, fails to account for the fact that women earn less than men, and that savings plan participation tends to increase with income. Conditional on income, women have substantially higher savings plan participation rates than men at all income levels except for those earning more than $100,000 annually, where the participation rates of men and women are roughly equal (Vanguard 2013). Similarly, women and men have roughly equal contribution rates overall, but conditional on income, women's contribution rates exceed those of men at all income levels (Vanguard 2013). Women, however, are less likely to make the maximum possible contribution, or to make catch-up contributions to their plan if they are eligible (Vanguard 2013).

Women and men are equally likely to have taken a loan out against their savings plan balances, with about 20% having an outstanding loan. Although the average loan balance is lower in dollar terms for women than for men, loan value as a fraction of total assets is similar for women and men (Vanguard 2013). This largely reflects the fact that women have lower balances against which to borrow. Because women have lower pay than men on average, and also shorter job tenure, women tend to have account balances that are roughly one-third lower than their male counterparts.

In employer sponsored savings plans, the asset allocation of women and men is fairly similar (Vanguard 2013). Women, however, report having less tolerance for risk (Theodos et al. 2014), and there are some notable differences in the investing behavior of women and men *outside* the domain of employer sponsored savings plans. In outside investment accounts, women are less likely than men to put their money in higher risk investments (Hira and Loibl 2008). But they are more patient and are less likely to trade in and out of stocks to time the market or in response to an investment doing worse than expected. Taking on less risk can reduce expected portfolio returns, but trading less implies lower trading costs and a lower likelihood of mistiming the market (Barber and Odean 2001).

My biggest concern for women is what happens in retirement. Women have longer life expectancies than men, and married women tend to be several years younger than their husbands, so that the average married woman reaching retirement can expect to spend several years as a widow, and the average single woman reaching retirement will spend all of her retirement years that way. In the shift away from defined benefit and toward defined contribution retirement plans, the financial security of women in retirement will depend very much on how the wealth accumulated for retirement is managed. With a traditional defined benefit pension, the default payout for a married couple is a joint and survivor annuity. Anything else requires the affirmative consent of the spouse. But defined contribution assets are largely not annuitized in retirement, leaving women vulnerable if the assets are not managed to last for their longer life expectancies. The implications of the shift from a defined benefit to a defined contribution retirement system on the wellbeing of older women has not received sufficient attention in either academic or policy circles.

Conclusion

In conclusion, most of the problems with the retirement savings system in the US are not unique to women. The problems of access to employer sponsored savings plans are real for both men and women. On some measures, women do better then men: conditional on having access to a plan, they are more likely to participate and they contribute more. But on other measures, women do worse: they have lower account balances, largely driven by lower levels of tenure and lower pay than their male counterparts (which represent more fundamental problems with the labor market). The biggest concern is the longevity risk that women will face in retirement. They have longer life expectancies than men, yet have saved less for themselves.

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Joint Economic Committee

Hearing on "Women's Retirement Security"
Hart Senate Office Building 216
May 21, 2014,

Statement of M. Cindy Hounsell, JD, President
Women's Institute for a Secure Retirement (WISER)

Good Morning, Vice Chair Klobuchar and Representative Hanna. I appreciate the opportunity to appear before you to discuss women's retirement security and the risks that women face in securing retirement income.

Introduction

My name is Cindy Hounsell. I am President of the Women's Institute for a Secure Retirement (WISER). WISER is a nonprofit organization that works to help women, by working with long-standing partners from aging and women's organizations, educators, employers, the financial industry, the business community, and policymakers to promote understanding of the important issues surrounding women's retirement income.

Our primary mission is financial education/capability --- providing women with the crucial skills and information they need to avoid poverty in retirement. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through research, training workshops, educational materials and outreach. For 18 years, WISER has worked to help women improve their economic circumstances and approach their retirement years with the most optimal financial situation.

WISER operates the National Resource Center on Women and Retirement Planning under a cooperative agreement with the Administration on Aging. The Center is a gateway of information created with strategic public-private coalitions to provide hard to reach women with financial tools and actionable information. The Center's goal is to help low- and moderate-income women make the best decisions they can with the assets and income that they have. These decisions are complicated and the financial implications of getting it wrong will mean a stronger likelihood of poverty in old age and a stronger reliance on government programs, or worse.

The Center has directly reached tens of thousands of women through our own and our partners' workshops. We have reached millions with our publications and website. WISER's approach is to provide women with core financial knowledge that encourages them to make financial planning and retirement readiness a priority in their lives.

Women's Retirement Security Challenges

Women face a number of retirement risks. Historically, older women have been at greater risk of poverty as a result of several major factors: women have lower average earnings, are more likely to work part-time, are more likely to be single, and while today they may be as likely as men to work for an employer offering a retirement plan, they are less likely to be eligible or to participate in those plans. Women eligible for defined contribution plans also contribute less to their plans for a number of reasons but mainly due to earning less. Women also tend to live longer and therefore need their retirement assets to last longer. A Hewitt Associates study projected that women, on average, need to replace nearly 130% of their final pay at retirement due to life expectancy.[1]

Women are more likely to live alone during retirement; if widowed, they are less likely to remarry and to pay more for medical care due to costly chronic health conditions as they age. Many women have uneven work histories due to taking time out of the workforce to provide care for family members as caregivers. This last factor – family caregiving – and the financial issues of family caregiving that can jeopardize the long-term retirement security of women will be the focus of my testimony.

The Caregiving Effect

Despite sweeping labor force changes in which more women than ever before are in the workforce, women remain the nation's **primary** caregivers whether caring for children or older family members. While it is commonly known that caregiving responsibilities are challenging and time-consuming, it is also important to realize that these family responsibilities affect workforce earnings as well as career development and retirement income.

As caregivers, women are at an even greater risk of experiencing financial setbacks. Some of these are obvious: women will work part-time, stop working, decline a promotion that requires longer hours, or leave a job altogether. Women making these compromises miss out on opportunities for compounded returns on 401(k) matching contributions and experience reduced savings and investments. According to one study of working caregivers, two-thirds reported having to take time off for caregiving-related reasons.[2] Another report found that caring for adult parents increased women's risk of poverty.[3]

When a two-income couple has a family, it still remains largely the mother's responsibility to maintain the home and take care of the children. Among full-time workers who are parents of children under 18, married mothers were more likely to

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1 Hewitt Associates, LLC., *Total Retirement Income at Large Companies: The Real Deal 2008.*

2 National Alliance for Caregiving and AARP. *Caregiving in the U.S., 2009.* Executive Summary

3 Chizuko Wakabayashi & Katherine M. Donato, *The Consequences of Caregiving: Effects on Women's Employment and Earnings*

provide childcare to household children than were married fathers. On an average day, 71 percent of mothers and 54 percent of these fathers spent time caring for and helping household children.[4]

In the majority of cases where a family elder requires care, it is women who provide it. Research studies indicate that nearly 66 million people provide unpaid eldercare in this country, and 61 percent of them are women.[5] Women provide eldercare an average of 3.5 hours a day. And 5.4 million women who provide eldercare have children under 16 at home to take care of, too.[6]

Findings from a survey report conducted by the Pew Research Center provides a profile of the *sandwich generation*, those adults who are *sandwiched* between children and aging parents. Among respondents providing care and financial support to an aging parent and supporting a child, nearly a third (30 percent) were just able to meet their basic expenses while 11 percent were not able to meet their basic expenses.[7]

The effects of unpaid elder caregiving are many. Caregivers often reduce paid work hours or have to quit work altogether. A MetLife study estimates that caregivers lose nearly $303,880 in wages, lost pensions and reduced Social Security benefits.[8]

Further, caregivers pay an estimated $5,531 in out-of-pocket costs each year for the person to whom they provide this eldercare.[9] These caregivers often pay for household goods, food and meals, travel and transportation costs, and medical care costs, including prescriptions. To cover these costs, some caregivers either stop saving for their own retirement or dip into their retirement savings. Others cut back on their own health and home care.

Another aspect of caregiving in today's America is "grandfamilies," where grandparents who are near or in retirement are raising their grandchildren. Almost 20 percent of the 2.5 million grandparents who provide this care live in poverty.[10]

When women take time out of the workforce to care for their children or an elder family member, their future Social Security benefits take a huge hit. For each year a woman (or man) does not work for pay, the Social Security Administration includes a zero into her benefit calculation. According to SSA, women average 12 years of zeros for

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[4] Bureau of Labor Statistics. *Married Parents' Use of Time*, May 2008. http://www.bls.gov/news.release/atus2.nr0.htm.
[5] National Alliance for Caregiving and AARP. *Caregiving in the U.S.*, 2009.
[6] BLS. *Unpaid Eldercare in the United States 2011-2012*. September 8, 2013. http://www.bls.gov/news.release/elcare.nr0.htm
[7] Kim Parker, Eileen Patten. *The Sandwich Generation: Rising Financial Burdens for Middle-Aged Americans*. Pew Research Center. January 13, 2013.
[8] MetLife Mature Market Institute. *The MetLife Study of Caregiving Costs to Working Caregivers*. 2011. https://www.metlife.com/mmi/research/caregiving-cost-working-caregivers.html#key%20findings
[9] Evercare Study of Family Caregivers - What They Spend, What They Sacrifice. November 2007.
[10] American Society of Aging. *Growth of Grandfamilies Leads to Food Insecurity*. May 9, 2012. http://www.asaging.org/blog/growth-grandfamilies-leads-food-insecurity

non-earning years. This is 12 years of zeroes added into a formula that takes into account an individual's 35 highest earning years. Consider the impact each zero has on the numbers and how it pulls down the Social Security benefit.

In addition, while the financial impact of family caregiving is profound, there is an additional emotional and physical toll that is often overlooked and causes caregivers to reduce their hours and prevents them from being what some might term "ideal workers." Consider this brief story of one full-time worker who is also a primary caregiver:

> *Luanne is a 49 year old married mom of a teenager. She works full-time as a regional manager in retail, which requires a lot of road travel. She's the only one of four daughters available to help out her aging widowed mother who, among other health conditions, has Parkinson's Disease and limited mobility. The caregiving situation is putting a great deal of stress on this woman's marriage, on her relationship with her 16-year old, and is interfering with her work.*
>
> *The stress got so bad a few months ago that she broke out in a severe case of shingles. Under doctor's orders, she requested two weeks off from her job under her short-term disability plan. She was lucky to get the time off, but as it turned out there was no short-term disability plan. Two weeks without pay added to the stress she's carrying, and there seems to be no end in sight. She contacted WISER staff looking for help and resources and told us that she felt like she was out of options.* [11]

Adding Up the Factors: The Impact on Women's Retirement Income

Women are worried about their financial security in retirement and saving enough, and rightly so. The end result of the whole of women's unique challenges is that when they hit their retirement years, women have 25 percent less retirement income and twice the poverty rate of men.[12] When widowhood or divorce occurs, the effects are even more harmful. A GAO report found that the income of women near or in retirement dropped 37 percent as a result of widowhood, while men's fell 22 percent. Divorce or separation reduced women's income by 41percent– almost twice the decline of men's income.[13]

Today, the rate of poverty for women age 65 and over is 10.7 percent, compared to 6.2 percent for men.[14] When looking at single women over age 65, the poverty rate jumps to 17.4 percent.[15] In this mix is a poverty rate for white single women of

[11] Women's Institute for a Secure Retirement. *Financial Steps for Caregivers: What You Need to Know about Protecting Your Money and Retirement.* February 2014.
[12] GAO. *Retirement Security: Women Still Face Challenges.* GAO-12-699. July 19, 2012.
[13] GAO. *Retirement Security: Women Still Face Challenges.* GAO-12-699. July 19, 2012.
[14] Current Population Reports. Income, Poverty and Health Insurance Coverage in the United States, 2011. September 2012.
[15] Women's Institute for a Secure Retirement. *Fact Sheet: Single Older African American Women and Poverty.* 2012.

15.3percent ; 32.5 percent for single African American women; and 43.7 percent for single Hispanic women.[16]

Why Women?

The main reason we are focusing on women is the sheer volume of the numbers – at age 65, there are more than 6 million more women than men, and the expected growth in the population of the "oldest-old" – those age 85 and older -- has been dramatic over the last century and is expected to continue to grow.

Recently, the National Institute on Aging has redefined this age group (85+) to ages 90 and older. Estimates indicate these numbers will greatly increase as the boomer population reaches **very** old age. By 2050, the number of nonagenarians will make up more than 10 percent of the population. The oldest-old population is mainly made up of women who live alone – 24 men for 100 women. The number of men who are married in that age group is 43 percent compared to about 6 percent of women.[17] Yet women are still facing a longer retirement with less income – the median income for women age 65 and older is only 60 percent of men's income in that same age group.

Solutions to Increase Women's Retirement Security

For the broader issues women face regarding retirement income insecurity, many solutions should be considered. We need to strengthen our existing programs wherever possible. That means focusing in particular on Social Security, as this program is critical to the financial foundation and well-being of women and is the only thing that protects millions of women from poverty in their older years.

The private retirement system which includes employer –sponsored plans needs to be extended so that those without access to a workplace plan will have the opportunity to save. These opportunities need to be extended to part-time and temporary workers. Recognizing the difference in men's and women's work experience as well as their longevity indicates the need for financially-innovative products, and increased financial education and planning to improve the financial security of older women and men.

The role of lifetime income products, like immediate annuities and longevity insurance (insurance for the age 85+ group) is little understood and needs more focused discussion. Both immediate or longevity annuities could play an important role in providing future retirement security for women. However, the industry would serve women well by further education and innovation on these lifetime income products.

Financial education in the workplace plays an important role in helping people understand the value of retirement benefits. Plan design, including automatic features, is an efficient and low-cost way to make savers out of non-savers. A larger proportion of

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[16] Ibid.
[17] Wan He & Mark Muenchrath, *90+in the United States*: 2006-2008 (Washington. D.C.),U.S. Government Printing Office, 2011.

small businesses do not offer 401(k)-type plans. Small business automatic IRAs, in which employers would set up automatic payroll deductions into the IRA of an employee's choice, holds promise to raise participation among small businesses. Also, the President's myRA proposal is a good start to get non-savers into the habit of saving toward retirement.

Reform Options to Improve the Financial Security of Caregivers:

Over the decades, a variety of reform options have been proposed to offer retirement protection to women who have spent several years out of the workforce as caregivers for dependents. These reforms, however, are piecemeal and will only take care of some problems. These policy options also have cost implications but they could help women decrease their risk of living in poverty. The list below is meant to identify features of various proposals. The idea of providing credits for years served as a family caregiver has long been discussed and may be a well-timed proposal.

The first two policy options mentioned below include two basic variations for improving Social Security benefits for those who have worked as family caregivers without earnings or low earnings for a certain number of years:

- **A specified earnings credit**: This credit would provide the caregiver a set amount of earnings for each year in which there was a child or parent in care and the caregiver's actual earning was zero or greatly reduced from previous years. This credit would be provided for a set number of years (e.g., 3-5 years).

- **Modifying the traditional Social Security benefit formula:** This option would help workers who take time out of the workforce by adjusting their Social Security benefits. SSA would drop out a set number of caring years from the highest 35 years required to determine the benefit.

Caregiver contributions to IRAs

- Allow caregivers to contribute to IRAs up to the qualified contribution limit: Women who are more likely to take time out could continue to save for retirement; however, many women may not be able to afford to take advantage of this option.

AGE Act Legislation[18]:

- This bill would establish a federal tax credit to help cover out-of-pocket expenses for caregivers caring for an aging family member. The bill would allow families a credit of up to $1,200.

[18] The *Americans Giving Care to Elders (AGE)* Act, 2012, introduced by Senators Klobuchar and Mikulski, would also establish a central clearinghouse for best practices and promising innovations to support families in their caregiving role. It would also increase funding to federal caregiver support efforts.

Financial Capability

Women need the best information and opportunity to access information to ensure that they do not make costly financial mistakes. This information should be targeted to women as spouses and caregivers, as well as to women employees. Experience and research shows that relevant financial information can dramatically increase total net worth by nearly one-third for those with the lowest income and 18 percent for those with moderate income. [19] One thing we can do is to educate women about the impact caregiving may have on their current and future financial security.

Conclusion

Thank you, Vice Chair Klobuchar and members of the committee, for convening this hearing and discussion on women's retirement security and for inviting WISER to present this testimony. While women are at a particularly high risk for poverty in retirement, there are a number of policy options that can help them to avoid this outcome. We need to make it easier for people to save at the workplace, as there are millions of workers who want to save but they do not have access to any plan and do not know how to set up an IRA on their own.

Finally, we need to continue to build on what is working and make it better. While there are endless discussions about what the correct solution is, millions of Americans are just trying to achieve financial stability and protect their future.

Thank you.

Agenda for Near Retirees:

- Educate near retirees on the value of claiming Social Security later to attain higher Social Security benefits.[20]
- Obtain a benchmark measure of retirement literacy and target the most important area of insufficient literacy.
- Provide benchmarks on determining retirement readiness or when retirement can be afforded.

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[19] Lusardi, Annamaria, *Saving and the Effectiveness of Financial Education. Published in "Pension Design and Structure: New Lessons from Behavioral Finance, "edited by O.Mitchell and S.Utkus. Oxford University press, 2005.*

[20] James Mahaney, Strategic Initiatives, Prudential Financial. Updated Edition, 2012. *Innovative Strategies to Help Maximize Social Security.*

The following are suggested actions for building and supporting increased economic and financial security for women of all ages.

- Protect, preserve and strengthen Social Security – a program critical to the financial well-being of women:
  - Preserve Social Security as an income-based social insurance system.
  - Improve benefits for low-wage workers—those with very low benefits are primarily low-wage, unmarried and widowed women.
  - Study ways to offer retirement protection to women with significant time spent as caregivers, including the provision of Social Security credits.
- Support employer plans, recognize the difference in men's and women's employment experience and promote individual saving behavior:
  - Encourage more employers to offer a retirement program and make it easy for employers to do so.
  - Encourage plan sponsors offering 401(k) and similar plans with better default investment options to enable more savers to accumulate more assets for retirement.
  - Extend retirement savings opportunities so that part-time and temporary workers have a way to save.
- Enable later retirement and support better work options at later ages:
  - Study the interaction of increasing longevity and retirement ages, and develop a dynamic system to keep retirement ages in step with greater longevity.
  - Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.
- Encourage financial product innovation that help older Americans preserve and protect their retirement incomes and assets:
  - Support and encourage the continued sponsorship of retirement plans with risk-protection features, such as lifetime income options.
  - Support development of more products that include combining income and long term care.
  - Support development of longevity insurance.

- Educate women of all ages about financial products, financial planning and saving:
  - Encourage employers to offer meaningful and appropriate financial education programs and assistance.
  - Government and foundations should act together to support community efforts of non-profit aging organizations to offer financial education, particularly those programs that target at-risk populations. WISER works with n4a, the National Association of Area Agencies on Aging as well as the National Council on Aging's Economic Security Initiative model that works well. We need to promote these programs that are successful on a larger scale.[21]
  - We know Americans are not saving enough; now we need to direct more resources to getting them the information, tools, and services we know can help and that can make a real difference in their retirement savings.

[21] Economic Security Initiative Fact Sheet 2012, National Council on Aging.

Reducing the Challenges Women Face in Retirement Through Economic Growth and Savings Reforms

Testimony Before
the Joint Economic Committee
United States Congress

I am Rachel Greszler, Senior Policy Analyst in Economics and Entitlements in the Center for Data Analysis at the Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Vice-Chair Klobuchar, Chairman Brady, and members of the committee, thank you for the opportunity to testify today on the topic of women's retirement security. I would like to focus my remarks on three important considerations.

First, today's generation of women retirees faces some unique challenges, but policies focused exclusively on today's problems could do more harm than good for future women retirees. Fortunately, the gains women have made in education, income, and employment will better prepare them for retirement. On the other hand, however, younger men and women alike will have to grapple with unsustainable entitlement promises, the growing burden of a massive federal debt, and changes in culture and marriage that will create new retirement challenges.

Second, to improve women's security in retirement, policymakers should focus on Social Security reforms and enabling increased personal savings. With the decline in defined-benefit pensions, these two components of retirement income will become more important.

Third, the single biggest component of retirement security is a strong economy. Without a job and rising income, individuals cannot adequately save for retirement. In this area, the government can do more by doing less. Rather than seeking to determine what businesses and individuals need and then taxing them to provide it, the government should let individuals and businesses decide what they need and allow them to create, build, and buy those things on their own.

The Changing Nature of Women's Retirement Security Challenges

There are a number of reasons why women face unique challenges during retirement. Foremost is the fact that women live 2.5 years longer, on average, than men and therefore require more income during retirement.[1] Additionally, women historically have worked less, had lower

[1] National Center for Health Statistics, "Health, United States, 2012: With Special Feature on Emergency Care," http://www.cdc.gov/nchs/data/hus/hus12.pdf#018 (accessed May 14, 2014). Life expectancy for women who reached age 65 in 2010 was 85.3 years, versus 82.7 years for men. Women's life expectancy at birth in 2010 was five years greater than men's (81.0 years vs. 76.2 years).

earnings, and had less access to employer-provided retirement savings. These factors have contributed to comparatively lower retirement security.

Many of the factors contributing to the challenges women face in retirement are changing. Today's generation of young working women will have more education, more employment, more income, and more choices. These positive gains will make younger women more prepared for retirement than their mothers or grandmothers were. Any policies aimed at increasing retirement security for women must take into account the changing nature of women's employment.

Women's Earnings

Most of us have heard the oft-cited statistic that women make only 77 cents for every dollar earned by men. Studies have shown that this figure is flawed on many accounts. A more accurate comparison of wages shows that the true gap is closer to between five and seven cents.[2] And much of that remaining gap likely reflects choices that women make to trade lower pay for non-wage compensation and accommodations—such as part-time work, personalized schedules, and teleworking—that better meet the needs of today's working women. Women should celebrate these increased flexibilities.

I am a working woman with four young children, so I certainly support fairness in pay. However, I fear that policies such as the Paycheck Fairness Act could force women like me to choose between a one-size-fits-all job and dropping out of the labor market. If employers are unduly forced to justify wage differences, they will take away the flexibilities and accommodations that workers—and women in particular—often choose in exchange for pay differences. Additionally, employers may be discouraged from hiring women, particularly those who have taken time out of the labor force, as they will be considered higher-risk employees.

Women's Education

Women's wages are rising because women are becoming more educated. Women who are 25–29 years old are 50 percent more likely to have four or more years of college than are women who are 55 and older.[3]

Women today aren't only more educated than previous generations of women; they are more educated than their male counterparts. In just one generation, women have changed what was a seven percentage point deficit to a seven percentage point advantage. Among workers 55 and

[2] CONSAD Research Corporation, *An Analysis of the Reasons for the Disparity in Pay Between Men and Women: Final Report*, prepared for the U.S. Department of Labor, January 12, 2009, http://www.consad.com/content/reports/Gender%20Wage%20Gap%20Final%20Report.pdf (accessed May 15, 2014).
[3] United States Census Bureau, "Table A-1. Years of School Completed by People 25 Years and Over, by Age and Sex: Selected Years 1940 to 2012," http://www.census.gov/hhes/socdemo/education/data/cps/historical/ (accessed May 14, 2014).

older, 32 percent of men have four or more years of college compared to 25 percent of women. Among workers ages 25–29, 31 percent of men have four or more years of college compared to 38 percent of women.[4] This leap in women's education is transformative. It has expanded women's access to white-collar and managerial jobs that provide better compensation, more opportunities, and greater retirement security.

Women's Retirement Savings

Another factor that will make today's generation of younger women more secure in retirement is their increased access to retirement savings vehicles. While women retirees today are less likely to have access to their own pension or 401(k), a recent Government Accountability Office (GAO) study found that men and women now have equal access to employer-sponsored retirement plans, and men's and women's participation rates in those plans are virtually identical.[5]

Women are already on their way to a more secure retirement. Given the transformative and continuing changes in women's education and employment in the United States, the types of policies that may have benefitted today's generation of older women do not make sense for—and could actually harm—younger women.

The Fiscal Outlook Will Bring New Challenges for Retirement Savings

While the gains women have made over the past decades have better positioned them for retirement in many ways, the daunting fiscal outlook will bring unique retirement challenges to younger generations of men and women alike. Simply put, promises have been made that cannot be kept, and debt has been incurred that will have to be repaid. This will require greater reliance on personal savings by younger generations.

We have all heard of the three-legged-stool analogy for retirement savings: Social Security, a pension, and personal savings. For generations, Social Security and pensions have been stable legs of this stool. Because of the program's $12.3 trillion in unfunded liabilities, however, today's workers and youth cannot count on Social Security. Likewise, with roughly $3 trillion or more in unfunded public pension liabilities and tens of billions in unfunded private pension liabilities, many workers who are counting on pensions could see those benefits massively reduced.

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[4] United States Census Bureau, "Table A-2. Percent of People 25 Years and Over Who Have Completed High School or College, by Race, Hispanic Origin and Sex: Selected Years 1940 to 2013," http://www.census.gov/hhes/socdemo/education/data/cps/historical/ (accessed May 14, 2014).

[5] United States Government Accountability Office, *Retirement Security: Women Still Face Challenges*, Report to the Chairman, Special Committee on Aging, U.S. Senate, July 2012, http://www.gao.gov/assets/600/592726.pdf (accessed May 14, 2014). Among workers with access to employer-sponsored DB or DC retirement plans, 87 percent of men and 86 percent of women contributed to those plans. On average, men contributed 7.2 percent of earnings, while women contributed 6.7 percent.

The third leg of the stool—personal savings such as 401(k)s—may not provide a defined benefit, but it is the only leg that has not promised more than it can pay, and it is the only component over which individuals have control. Despite the term "entitlement," individuals have no legal claim to Social Security; Congress can act to change its terms at any time. Likewise, while public and private pensions have certain protections, many individuals who are receiving or have been promised benefits will experience significant reductions when pension funds run dry.

The daunting fiscal outlook—for Social Security, for pension systems, and for the entire federal government budget—demands that personal savings play a more prominent role in retirement security. Younger generations simply cannot count on the Social Security and Medicare benefits they have been promised without massive tax increases that would extract a very heavy toll on workers and the economy.

The Decline in Marriage Will Reduce Retirement Security

According to a GAO study, the percentage of the population over age 15 that is married declined from 68 percent in 1960 to 54 percent in 2010.[6] Meanwhile, the percentage divorced multiplied fivefold, from 2 percent to 10 percent. This decline in marriage is problematic because increased retirement security and reduced poverty are among the many benefits of marriage.

Among married couples ages 50–64, 71 percent had personal retirement savings. This compares to just 48 percent of single women and only 39 percent of single men.[7] Of those with savings, the median account value for single women was two-thirds of that for single men and less than 30 percent of that for married couples.

Additionally, poverty rates among elderly women were more than three times as high for divorced women, nearly five times as high for never-married women, and seven times as high for separated women, compared to married women.[8]

Reforming Social Security

Social Security remains a vital component of retirement income for most Americans. Yet it has $12.3 trillion in unfunded liabilities and is projected to become insolvent in 2033, with benefits being cut across the board by more than 20 percent.

These benefit cuts would disproportionately affect women who make up a greater share of low-income retirees. If the trust fund reaches insolvency and benefits are cut, the poverty rate among

[6] Barbara D. Bovbjerg, Managing Director, Education, Workforce, and Income Security, U.S. Government Accountability Office, "Retirement Security: Trends in Marriage, Work, and Pensions May Increase Vulnerability for Some Retirees," Testimony before the Special Committee on Aging, U.S. Senate, March 5, 2014, http://www.gao.gov/assets/670/661377.pdf (accessed May 14, 2014).
[7] Ibid.
[8] Ibid. Poverty rates for women ages 65 and over in 2012 were 4.9 percent for married women, 14.5 percent for widowed women, 17.1 percent for divorced women, 35.4 percent for separated women and 23.3 percent for never-married women.

elderly Social Security beneficiaries would increase by two-thirds, from just under three percent to just under five percent.[9]

The following four reforms provide options that would protect Social Security for future generations and better target it to those who are most in need:

1. **Preserve solvency through commonsense reforms such as indexing Social Security's the retirement age to life expectancy and implementing the more accurate chained Consumer Price Index.** The combination of increased life expectancies and less physically demanding jobs has made it easier for people to work longer, and Social Security was never meant to provide individuals with multiple decades of retirement income. Additionally, implementing the chained CPI would reduce excess benefit increases that currently provide the largest gains to the wealthiest retirees.
2. **Replace Social Security's spousal benefit with a child care credit.** As more women are working long enough and earning enough to receive their own Social Security benefit, the spousal benefit has become outdated. What's more, it makes Social Security a bad deal for many working women who pay the full payroll tax but may receive little or no increase in their future benefit as a result. As it has become more common for women to take time out of the labor force to raise children, as opposed to not entering the labor force at all, we should replace the spousal benefit with an earnings credit for women or men who take time out of the labor force to care for children.
3. **End Social Security's policy of discouraging work by eliminating the earnings test and payroll taxes for those who work beyond the normal retirement age.** When individuals work longer, they earn more income and are able to preserve their retirement savings. Nevertheless, two-thirds of workers begin collecting Social Security benefits before they reach the normal retirement age. Claiming benefits early results in significantly lower benefits. In 2012, workers who claimed early benefits received 27 percent less—$430 per month and more than $5,000 less per year—than workers who did not collect benefits early. We can encourage workers to delay retirement by eliminating the Social Security earnings test and eliminating the payroll tax for those who work beyond the normal retirement age. Eliminating the earnings test would not cost anything, and workers who have reached the normal retirement age have already paid their share into the system and receive little to no additional benefits as a result of their continued work and payroll tax contributions.
4. **Transform Social Security to a flat, means-tested benefit.** The Social Security program was established to protect against poverty in old age. While it does that for some, it also fails to keep some seniors out of poverty while providing larger benefits to wealthier retirees. A flat benefit, phased out for wealthier retirees, would better protect against poverty in old age while minimizing the resources extracted from the private sector. Such transformation should take place within the context of fundamental tax reform that eliminates the dedicated payroll tax.

[9] Social Security Administration. "Why Will Poverty Decline for Social Security Beneficiaries Aged 60 and Older?," April 2012, http://www.ssa.gov/retirementpolicy/program/poverty-decline.html (accessed May 20, 2013).

Encouraging Personal Savings

In addition to Social Security reform, there are a number of ways the government can foster personal retirement savings.

Although the percent of employers offering retirement plans has been on the rise, about 75 million employees—many of whom are self-employed or work for small businesses—do not have access to an employer-sponsored retirement savings plan.[10] Individual retirement accounts (IRAs) provide a limited option for workers without an employer-sponsored plan.

Additionally, about 15 percent of employees who have access to retirement savings plans at work choose not to participate in them. [11] Research shows that automatically enrolling workers in retirement plans—that is, giving them the option to opt out rather than opt in—increases enrollment by about 20 percent.[12]

The Automatic IRA proposal is offers a comprehensive approach to expanding both access to and participation in retirement savings plans. It also enjoys widespread bipartisan support.[13] Under the Automatic IRA, employers could choose from a variety of privately administered IRA plans with little to no cost to them, and automatic enrollment of workers in the plans would significantly increase the number of workers who participate in retirement savings plans.

While increasing access to and enrollment in employer-sponsored retirement plans would go a long way towards improving retirement security, employer-sponsored plans do not solve the problem of individuals who are not employed. Many women take time out of the labor force to care for children or other family members. IRAs provide only a limited option for such individuals. The maximum IRA contribution—$5,500 per year—is less than one-third that of employer-sponsored plans, and participation in IRAs is limited to about 5 percent to 10 percent of workers who do not have access to an employer-sponsored plan.[14]

Congress should increase the limits on IRAs to match that of 401(k)s and allow married couples to contribute a combined total of $35,000 (twice the current limit for individual 401(k) contributions) in combined IRA and employer-sponsored retirement plans.

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[10] David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs and Account Simplification," Testimony before the Committee on Ways and Means, United States House of Representatives, April 17, 2012, http://www.heritage.org/research/testimony/2012/04/pursuing-universal-retirement-security-through-automatic-iras-and-account-simplification (accessed May 15, 2014).
[11] Ibid.
[12] David C. John, "The Business Case for 401(k) Automatic Enrollment," Retirement Made Simpler, 2013, http://www.retirementmadesimpler.org/ResourcesAndResearch/BusinessCaseForAuto401ks.shtml (accessed May 14, 2014); The Principal Financial Group, "New Data from The Principal Shows Impact of Automatic Enrollment in 401(k) Plans," May 17, 2011, https://www.principal.com/about/news/2011/ris-auto-enroll051711.htm (accessed May 14, 2014).
[13] John, "Pursuing Universal Retirement Security Through Automatic IRAs and Account Simplification."
[14] Ibid.

The Surest Path to Retirement Security: A Strong Economy and Jobs

While there are measures that can be taken to improve Social Security and personal savings, the most important component of retirement security is a strong and growing economy. Regardless of age or gender, a strong and growing economy is fundamental to a secure retirement.

It may seem obvious, but not having a job is the biggest impediment to saving for retirement. A study by the Center for Retirement Research examined the retirement pensions and 401(k)s of older workers and concluded that the biggest determinant of whether or not a worker had a pension was employment. Among those surveyed, over half of all low-income older individuals (defined as below 300 percent of poverty) were not working.[15] Only 22 percent of low-income older individuals had a defined-contribution retirement savings plan.

Improving access to retirement savings plans and encouraging participation in them would increase retirement savings among low-income groups, but even if all employers were required to offer a plan and to enroll employees in it, the percent of low-income near retirees with defined contribution retirement savings accounts would not exceed 42 percent. This is because having a low income is often the result of not having a job, and without a job, it is nearly impossible to save for retirement.

Today's employment market is lacking. Although the unemployment rate has declined, much of the drop has been caused by workers dropping out of the labor force rather than by workers finding jobs. At less than 63 percent, the labor force participation rate is at the same level today as it was 35 years ago in 1978. An analysis by former Bureau of Labor Statistics Commissioner Keith Hall showed that the entirety of the 2013 decline in the unemployment rate (from 7.9 percent to 6.7 percent) was the result of people dropping out of the labor force.[16]

A better indicator of employment—the prime-age employment to population ratio—is lower today than it was almost 30 years ago—in 1985—and remains more than three percentage points below its pre-recession level.[17] Many workers who have left the labor force have likely turned to early retirement or disability benefits, both of which result in lower incomes and less retirement security than does a job.

What Can the Government Do to Encourage Job Creation?

[15] April Yanyuan Wu, Matthew S. Rutledge, and Jacob Penglase, "Why Don't Lower-Income Individuals Have Pensions?" Center for Retirement Research at Boston College, April 2014, http://crr.bc.edu/wp-content/uploads/2014/04/IB_14-8.pdf (accessed May 14, 2014).
[16] Keith Hall, "More to Declining Labor Force Participation Than Aging Population" George Mason University, Mercatus Center, February 7, 2014, http://mercatus.org/publication/more-declining-labor-force-participation-aging-population (accessed May 15, 2014).
[17] According to the most recent data on employment from the Bureau of Labor Statistics, in April 2014, the employment-to-population ratio among prime-age workers (ages 25 to 54) was 76.5 percent. Prior to the recession, the ratio was around 80 percent.

The government should enact sound fiscal and economic policies that encourage entrepreneurship and job creation. Budgetary discipline would reduce fears of future tax hikes and encourage employers and entrepreneurs to expand operations. The government should revisit existing policies that increase employers' costs of employment and that discourage able-bodied individuals from working.

For example, the harmful effects of the Affordable Care Act (ACA) are evident in employers reducing workers' hours to keep them below the threshold of full-time employees. This is particularly troublesome for retirement security because employer-provided retirement plans are often available only to full-time employees.

In addition to the negative employment effects that are already playing out, the Congressional Budget Office (CBO) estimates that the ACA will significantly reduce employment. By 2024, the CBO projects that the ACA will result in 2.5 million fewer full-time-equivalent jobs.[18] As the CBO points out, most of this effect will come from reduced employment among low-income earners who will choose to work less because of the health care subsidies they will receive. In other words, employment will be lower among those who most need it.

Since employment is a precursor to retirement savings, policies that reduce employment also reduce retirement security. Additionally, lower employment is a double whammy to the federal budget because it translates into lower tax revenues and higher government spending.

Conclusion

To improve women's retirement security, policymakers must consider proposals that will help both current and future generations of women retirees. This includes reforming Social Security and encouraging personal retirement savings. The single greatest thing the government can do to improve both men's and women's retirement security, however, is to foster a strong and growing economy.

[18] Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024*, Appendix C: Labor Market Effects of the Affordable Care Act: Updated Estimates," February 2014, http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf (accessed May 15, 2014).