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

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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

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[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

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[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).