Women and Retirement Savings Gap

Eleanor's Hope
Women's Health and Retirement Security

Introduction

Americans today are increasingly concerned that they will not have saved enough money to provide for a reasonable standard of living in retirement. This uncertainty is the result of a number of different factors. Few companies today offer their workers traditional pensions, which leaves most Americans relying on Social Security along with any personal savings they manage to accumulate for their retirement. Stagnant wage growth over the past decade, combined with the lingering effects of the recession, have made it very difficult for most American workers to put aside savings for retirement, and instead have led many to dip into what retirement savings they have accumulated to cover daily expenses. The collapse of the housing market destroyed the value of many Americans' largest investment – their homes. And while it is good news that we are living longer than our parents and grandparents, our longer life expectancy means we need to have saved more during our earning years so we don't outlive our nest eggs after retirement. Our longer life-times also lead to significant increases in out-of-pocket medical costs, even with the benefits provided by Medicare and Medicaid.

These trends inordinately impact women who tend to spend more time out of the workforce as a consequence of their caregiving responsibilities. Women earn less than men even when doing the same jobs, they more often work part-time or in jobs that do not offer retirement savings plans, and as a result women tend to accumulate fewer savings for retirement. At the same time, their longer average lifespan means that they will have higher retirement costs, both for everyday expenses and for necessary medical care. Consequently, only twelve percent of women are very confident that they can comfortably retire[1], and the thought of running out of money in retirement keeps 57 percent of women awake at night.[2]

Older women have significantly lower retirement benefits than men.

Factors Driving the Gender Gap in Retirement Savings

Lower-wage workers find it more difficult than high-wage workers to cover all their daily living expenses and still accumulate meaningful retirement savings. This presents a significant challenge for women trying to save for their retirement. While there has been some progress in closing the median wage gap between men and women, in 2014 women working full-time still earned only about 78 cents annually for every one-dollar earned by men doing the same job, while Hispanic women's median weekly earnings were 61.5 percent of white men's earnings, and black women's earnings were 67 percent of the median weekly earnings of white men.[3] This wage gap increases for older women; the National Institute on Retirement Security reports that the typical income of women age 65 and older is 25 percent lower than men. As men and women age, men's income advantage widens to 44 percent by age 80 and older.[4]

Part-time workers are at an even greater disadvantage not only because of their lower earnings but because most employers do not offer retirement savings plans to their part-time workforce. This situation disproportionately affects women because a much higher percentage of women work part-time when compared with men. In 2014, 26 percent of employed women usually worked part-time—that is, less than 35 hours per week. In comparison, 13 percent of employed men usually worked part time in 2014. Looking at it another way, in 2014 women represented two-thirds of the part-time workforce. In addition, employed women generally work fewer hours per week than men.

On average, women worked 35.9 hours per week in 2014, compared with 41.0 hours for men.[5]

Women are also more likely to spend time out of the workforce entirely to raise their children or provide care to elderly parents. In 2014, 43 percent of women were out of the workforce compared with 31 percent of men.[6] A report by the Family Caregiver Alliance updated in February 2015 found that 66 percent of all caregivers are women, and 20 percent of women are family caregivers. Individual caregivers are likely to spend about 12 years out of the workforce to raise children or care for elderly family members or friends. The negative impact on a caregiver's retirement fund for women is $40,000 more than it is for men. And the cost impact on caregivers over a lifetime in lost wages and Social Security benefits is almost $325,000.[7] A 2016 survey by the Transamerica Center for Retirement Studies found that about 22 percent of women had already taken time out of the workforce during their careers, or expected to take time out, to act as a caregiver compared to just 15 percent of men.[8]

Older women have significantly lower retirement benefits than men. In 2014, the average annual Social Security income received by women 65 years and older was only 77 percent of the benefit received by men ($13,150 compared to $17,106).[9] When it comes to pensions, in 2010 men received $17,856 in median income from traditional Defined Benefit pensions, whereas women received $12,000—or 33 percent less.[10] There is also a gender gap in Defined Contribution retirement account assets (such as 401(k) plans). In 2014, among money-manager Vanguard's three million participants, the median amount accumulated in DC retirement accounts was $36,875 for men and $24,446 for women—a difference of 34 percent.[11]

Consequently, many older women must continue to work past retirement age, but in doing so they remain at a considerable disadvantage to men. In 2014, the median earnings of working-age women who worked full-time, year-round were $39,000 – only 78 percent of the $50,000 for men of similar age.[12] And this gap grows as women become older.

Women reaching age 65 in 2015 are expected to live, on average, an additional 21.5 years compared with 19.1 years for men, a difference of 2.4 years, meaning that their retirement savings must be stretched over a longer period.[13] This extra lifespan also results in additional medical costs. In 2014, The Employee Benefits Research Institute (EBRI) estimated that women will need between $15,000 and $19,000 more than men to meet all of their medical expenses in retirement.[14] This combination of factors leaves older women more likely to be poor than men, and more likely to outlive their spouses. In 2012 over two thirds of nursing home residents were women.[15] And a study by the National Institute for Retirement Security found that in 2013, women were 80 percent more likely than men to be impoverished at age 65 and over. The median income of women age 65 and older is consistently 25 percent lower than the median income of men of the same age, yet the poverty gap widens over time due to increased poverty rates for women at older ages. While women age 65 to 69 are just 33 percent more likely to live in poverty than men, women aged 75 to 79 are three times as likely and those over the age of 80 are twice as likely to live in poverty compared to men.[16]

These figures clearly illustrate the challenges that women face in retirement. They generally have accumulated fewer assets and face higher retirement costs when compared with men. Women closer to retirement age have a larger portion of their work careers spent in a period when the pay gap was wider, and they were subject to other gender factors such as time out of the workforce to help raise young children. The result is significantly lower savings for women in retirement. The financial gap of single women, women with lower levels of education or women of color is even more pronounced. In 2011, the average total income of men aged 65-74 was about $51,000 for whites, $31,000 for Blacks, and $26,000 for Latinos, while the average total income of women of the same age was approximately $26,000 for whites, $24,000 for Blacks, and $16,000 for Latinas.[17]

Disparate Access to Pensions

Although the gap between eligibility for employer sponsored retirement plans and participating rates between men and women has been narrowing over the years [18], women can still expect significantly lower pension benefits than men. In 2014, only 31.6 percent of unmarried women aged 65 or older were receiving their own private pensions (either as a retired worker or survivor), compared to 34.3 percent of unmarried men.[19]

Traditional pension plans are more likely than defined contribution plans such as 401(k) plans to pay out benefits in the form of an annuity, which provides a stream of payments throughout a woman's longer lifetime. Annuities provided by these plans are required by law to be calculated on a gender-neutral basis, which results in higher payment amounts for women. Traditional pension plans are also especially valuable for married women because they are required by law to offer spousal survivor benefits that can only be waived by consent of both partners, unlike defined contribution plans. On the negative side, it can take many years for participants in traditional pension plans to earn benefits (vesting), which is a disadvantage for women given their more intermittent career patterns.

Unfortunately, fewer and fewer firms are offering defined benefit programs to new employees. The retirement environment at *Fortune* 500 companies analyzed by Towers Watson has changed dramatically over the years. In 1998, 59% of these employers offered a Defined Benefit plan to newly hired salaried workers. By 2015, only 20% offered any Defined Benefit plan — traditional or hybrid — to new hires. Traditional final average pay Defined Benefit plans have fared the worst. The number of *Fortune* 500 companies sponsoring an open traditional Defined Benefit plan fell from 50% in 1998 to 5% in 2015.[20] Smaller firms are even less likely to offer such plans due to their cost and complexity. Thus, the portion of women who have access to defined benefit plan income, either from their own work or through their spouse or survivor benefits will continue to decline. Only five percent of current women workers expect such company funded plans to be their primary source of retirement. Many more women (35 percent) now expect defined contribution plans and Individual Retirement Accounts (IRAs) to be their primary source of retirement income.[21]

The advantage for women in working for an employer with a defined contribution savings plan is that they are portable, allowing women who change jobs frequently or temporarily drop out of the workforce the ability to easily transfer their savings to a new employer. But these plans place all of the risk of poor stock market performance on the worker rather than the employer, which may quickly deplete the smaller accounts accumulated by women. In addition, because defined contribution plans are not collectively invested or professionally managed, they tend to have high fees, making them almost twice as costly as traditional plans.[22]

Women are also more likely to take lump sum distributions to meet current expenses than men, further undercutting their later retirement income. In fact, only 15 percent of 401(k) plans even offer an annuity option.[23] The annuities that are offered to workers with defined contribution plans are not required to be gender-neutral, resulting in higher costs for women who annuitize their accounts and lower overall benefits. Defined contribution plans also do not require a spouse's consent when a participant opts to take benefits in the form of a lump-sum payment rather than an annuity. Several researchers argue that if spousal consent was extended to these plans as it currently applies to traditional pension plans, those choosing annuity payments over lump sums would increase dramatically to the advantage of widowed women.[24]

Social Security remains a much more significant factor in women's retirement income than in men's. In 2014, 46 percent of elderly unmarried women and 58 percent of elderly unmarried women of color relied on Social Security for 90 percent or more of their total income, and the average annual benefit for all women age 65 or older was just over $13,150.[25] Significant numbers of current working women, 29 percent, still look to Social Security to be their primary source of retirement income.[26] Social Security is not designed and was never intended to be the primary source of retirement income for men or women. Yet the shortcomings in the private pension system and unpredictable stock market volatility have left Social Security as the bedrock retirement plan for American workers, and especially for women.

Options to address gender issues

What can be done to reduce the gender gap in pensions? Public policies and the extension of economic trends that promote pay equity between genders would relieve much of the fundamental income disparity that impedes women's ability to accumulate adequate retirement savings. While some progress is being made in this area it remains a long-term goal. Increased educational achievement by women will also help. A survey of workers between the ages of 32-61 indicates that over three-fourths (76 percent) of families headed by someone with a college degree or more education had savings in retirement accounts in 2013, compared with 43 percent of families headed by someone with a high school diploma and 18 percent of families headed by someone without a high school diploma or GED. Even among families with retirement account savings, there are large differences in account holdings by education. The typical family with retirement savings headed by someone with a college degree or more education had more than three times as much ($95,000) as the typical family headed by someone with no more than a high school diploma or GED ($30,000), which in turn had twice as much as the typical family headed by someone without a high school diploma or GED ($14,700) in 2013.[27]

Over the long term, women would benefit from the restoration of the traditional "three legged-stool" of retirement: a robust Social Security program, a reformed employer-based retirement system that borrows the best from traditional pensions, and a strengthened defined contribution system with adequate protections for women. Reforms to the employer-based system should encourage plans that are universal, secure and adequate; which provide for professional asset management and collective investment; and in which investment risk is not borne entirely by workers.[28]

In the meantime, there are a number of more targeted, near-term steps that can help address the gender gap in pensions. As mentioned earlier, steps to require or encourage gender-neutral annuity options, including spousal consent in defined contribution plans similar to those that are required for traditional pension plans, would be of considerable benefit to women. In a related change, the Internal Revenue Service's rulings that allow for electronic waiver of important spousal benefits should be reversed. Electronic pads may produce a signature that is not usable for a future independent authentication should the waiver be challenged. Given the importance and long-lasting consequences of waiving rights to survivor benefits, such benefit decisions should only be made in a form that makes the document available for future independent authentication, such as the traditional pen to paper.

To address women's work history, the Pension Rights Center suggests that caregivers on family and medical leave should be permitted to contribute to their 401(k) plans, and workers should be allowed to purchase benefit accruals lost during the time away from employment. To make saving more affordable, the Saver's Credit providing tax credits for low income workers saving for retirement should be increased. The current Saver's Credit is not "refundable", that is, it is not available for workers without a federal income tax liability, and it begins to phase-out at incomes as low as $18,000 per year. These limits can reduce the Saver's Credit's effectiveness in encouraging lower-wage women to save for their retirement.

In addition, the current non-discrimination rules that are designed to protect lower wage workers need significant revision as they currently allow millions of workers to be excluded from their employer's plans. They also can allow up to 90 percent of the contributions made by a company to the retirement plan to go to highly compensated workers rather than the rank-and-file. We should require straightforward disclosure of all fees paid by 401(k) plan participants, and make improvements to the division of pension payments upon divorce and to the annuity rules for survivor benefits in civil service plans, changes recommended by the Pension Rights Center.

for a future independent authentication should the waiver be challenged. Given the importance and long-lasting consequences of waiving rights to survivor benefits, such benefit decisions should only be made in a form that makes the document available for future independent authentication, such as the traditional pen to paper.[29]

To address women's work history, the Pension Rights Center suggests that caregivers on family and medical leave should be permitted to contribute to their 401(k) plans, and workers should be allowed to purchase benefit accruals lost during the time away from employment.[30] To make saving more affordable, the Saver's Credit providing tax credits for low income workers saving for retirement should be increased. The current Saver's Credit is not "refundable", that is, it is not available for workers without a federal income tax liability, and it begins to phase-out at incomes as low as $18,000 per year. These limits can reduce the Saver's Credit's effectiveness in encouraging lower-wage women to save for their retirement.

In addition, the current non-discrimination rules that are designed to protect lower wage workers need significant revision as they currently allow millions of workers to be excluded from their employer's plans. They also can allow up to 90 percent of the contributions made by a company to the retirement plan to go to highly compensated workers rather than the rank-and-file.[31] We should require straightforward disclosure of all fees paid by 401(k) plan participants, and make improvements to the division of pension payments upon divorce and to the annuity rules for survivor benefits in civil service plans, changes recommended by the Pension Rights Center.

Finally, a number of states are in the process of considering using their own employees' pension systems to administer retirement savings plans for private-sector workers who do not have access to retirement plans through the workplace. These plans are designed to provide simple, low-cost investment options to workers, with retirement savings pooled and professionally managed. Most participants are expected to work for small businesses, which disproportionately employ women, and often do not offer retirement plans to their workers. Although a uniform, national plan would be better for workers, having access to employer plans on a state-by-state basis is a good first step toward expanding retirement savings among women.[32]

Within Social Security, a number of steps can be taken to strengthen the program to protect women. These include improving survivor benefits, providing credits for caregivers, enhancing the formula used to calculate the special minimum benefit amount, equalizing treatment of disabled and working widows, and restoring student benefits.[33] Finally, providing a bump-up in benefits at age 85 would help older women better keep up with increases in the cost of living.

Conclusion

Women's ability to achieve a comfortable retirement is undermined by a significant gender gap in today's retirement system. In the long-term, eliminating the wage gap that limits women's earnings is essential to helping our daughters and granddaughters save for their own retirement. And in the near-term, changes to current pension law as discussed above, can narrow this gap considerably, helping women to adequately save for their retirement years. Whether President Trump's policy initiative for a massive reform of the tax code will ultimately hinder or help expand retirement savings is yet to be seen. What is clear is that deep and wide-ranging changes to tax policy present an opportunity for those concerned about retirement security to make improvements that could be felt for generations.

Government Relations and Policy, May 2017

[1] Catherine Collinson, "Sixteen Facts About Women's Retirement Outlook*",* Transamerica Center for Retirement Studies TCRS 1315-0316, March 2016, https://www.transamericacenter.org/docs/default-source/women-and-retirement/tcrs2016_sr_womens_retirement_outlook.pdf.
[2] The Allianz *Women, Money and Power* Study: Empowered and Underserved, ENT-1462-N, 2013, https://www2.allianzlife.com/content/public/Literature/Documents/ENT-1462-N.pdf.
[3] Ariane Hegewisch & Asha DuMonthier, *The Gender Wage Gap: 2015, Earnings Differentials by Race and* Ethnicity Fact Sheet, Institute for Women's Policy Research, IWPR # C437, March 2016, http://www.iwpr.org/publications/pubs/the-gender-wage-gap-2015-earnings-differences-by-race-and-ethnicity.
[4] Jennifer Erin Brown, Nari Rhee, Joelle Saad-Lessler & Diane Oakley, *Shortchanged in Retirement, The Continuing Challenges to Women's Financial Future,* National Institute on Retirement Security, March 2016, http://www.nirsonline.org/storage/nirs/documents/Shortchanged/final_shortchanged_retirement_report_2016.pdf.
[5] BLS Reports, *Women in the Labor Force: a databook,* Report 1059, December 2015, http://www.bls.gov/opub/reports/cps/women-in-the-labor-force-a-databook-2015.pdf.
[6] ibid.
[7] Women and Caregiving: Facts and Figures, Family Caregiver Alliance, February 2015 update, https://www.caregiver.org/women-and-caregiving-facts-and-figures.
[8] Collinson.
[9] Social Security Administration, *Social Security is Important to Women,* Fact Sheet, 2017, https://www.ssa.gov/news/press/factsheets/women-alt.pdf.
[10] Brown, Rhee, Saad-Lessler & Oakley.
[11] Ibid.
[12] Social Security Administration.
[13] ibid.
[14] Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Good News Not So Rare Anymore, Employee Benefits Research Institute, Notes, October 2014, Vol. 35, No. 10, https://www.ebri.org/pdf/notespdf/notes.oct14.final.retsvgs.pdf.
[15] Nursing Home Data Compendium 2013, Department of Health and Human Services, Centers for Medicare and Medicaid Services, https://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/CertificationandComplianc/downloads/nursinghomedatacompendium_508.pdf.
[16] Brown, Rhee, Saad-Lessler & Oakley.
[17] Fischer, Jocelyn and Hayes, Jeff, "The Importance of Social Security in the Incomes of Older Americans: Differences by Gender, Age, Race/Ethnicity, and Marital Status," Institute for Women's Policy Research, IWPR #D503, August 2013, http://www.iwpr.org/publications/pubs/the-importance-of-social-security-in-the-incomes-of-older-americans-differences-by-gender-age-race-ethnicity-and-marital-status.
[18] Brown, Rhee, Saad-Lessler & Oakley.
[19] Social Security Administration.
[20] McFarland, Brendan, Continuing Shift in Retirement Offerings in the *Fortune* 500: 1998 – 2013, Towers Watson, February 18, 2016, https://www.towerswatson.com/en/Insights/Newsletters/Americas/insider/2016/02/a-continuing-shift-in-retirement-offerings-in-the-fortune-500.
[21] Collinson.
[22] W. Forina and Nari Rhee, "Still A Better Bang for the Buck: An Update on The Economic Efficiencies of Defined Benefit Pension Plans", National Institute for Retirement Security, Washington, DC, December 2014. http://www.nirsonline.org/storage/nirs/documents/Still%20a%20Better%20Bang/bangforbuck_2014.pdf.
[23] Brien, Michael and Constantijn, Panis, "Annuities in the Context of Defined Contribution Plans," A Study for the U.S. Department of Labor, Employee Benefits Security Administration, November 2011, http://www.dol.gov/ebsa/pdf/deloitte2011.pdf.
[24] Boivie.
[25] Social Security Administration.
[26] Collinson.
[27] Monique Morrisey, "Retirement Inequality Chartbook: The State of American Retirement, How 401 (k)s have failed most American workers," Economic Policy Institute, March 3, 2016, http://www.epi.org/publication/retirement-in-america/
[28] Statement of Retirement USA Submitted to the Subcommittee on Health, Employment, Labor and Pensions, on "Retirement Security: Challenges Confronting Pension Plan Sponsors, Workers and Retirees", June 14, 2011, http://www.pensionrights.org/sites/default/files/docs/110614_rusa_statement_for_andrews_subcmtee_hearing.pdf.
Georgetown University Center for Retirement Initiatives, McCourt School of Public Policy, http://cri.georgetown.edu/
Carroll Estes, Terry O'Neill and Heidi Hartmann, "Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits", Institute for Women's Policy Research, National Committee to Preserve Social Security and Medicare Foundation, National Organization for Women Foundation, May 2012, http://www.iwpr.org/publications/pubs/breaking-the-social-security-glass-ceiling-a-proposal-to-modernize-womens-benefits.

[29] "Consumer Agenda for Retirement Security," Pension Rights Center, Sep. 16, 2013, http://www.pensionrights.org/learn-issues/policy-agenda/agenda-5/f.
[30] "Consumer Agenda for Retirement Security," Pension Rights Center, Sep. 16, 2013, http://www.pensionrights.org/learn-issues/policy-agenda/agenda-3/j.
[31] Peter R. Orszag, "How the Cross-Testing Pension Loophole Harms Low- and Moderate-Income Workers", Center on Budget and Policy Priorities, March 2, 2000, http://www.cbpp.org/cms/index.cfm?fa=view&id=1736.
[32] Georgetown University Center for Retirement Initiatives, McCourt School of Public Policy, http://cri.georgetown.edu/
[33] Carroll Estes, Terry O'Neill and Heidi Hartmann, "Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits", Institute for Women's Policy Research, National Committee to Preserve Social Security and Medicare Foundation, National Organization for Women Foundation, May 2012, http://www.iwpr.org/publications/pubs/breaking-the-social-security-glass-ceiling-a-proposal-to-modernize-womens-benefits.