

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

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

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 41 percent—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

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 Legislation¹⁸:

- 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.

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.