

Senate Committee on Health, Education, Labor and Pensions
Hearing on “Pension Savings: Are Workers Saving Enough for Retirement?”
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Testimony of M. Cindy Hounsell, President
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Good Morning, Chairman Harkin, Senator Alexander and distinguished members of the Committee. I appreciate the opportunity to appear before you today to discuss retirement saving by American workers and to ensure that Committee members recognize the significant retirement risks women face – particularly the millions of women who are on the cusp of retirement.

Introduction

My name is Cindy Hounsell, and I am president of the Women’s Institute for a Secure Retirement (WISER). WISER is a nonprofit organization that works to help women, educators and policymakers understand the important issues surrounding women’s retirement income. Our primary mission is financial education and 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. WISER and the U.S. Administration on Aging operate the National Education and Resource Center on Women and Retirement Planning.

WISER commends the Committee for examining the adequacy of retirement saving by American workers. This focus comes at a time when 61 percent of Americans age 44 to 75 fear running out of retirement assets more than they fear death.¹ Our testimony will focus primarily on women’s retirement savings — highlighting the challenges women face. We will summarize some of the activities WISER continues to undertake to help women deal with these challenges. We will also detail the outreach efforts of WISER and its partners to improve financial literacy and thereby improve savings. Finally, we believe that there needs to be a range of solutions that will help people today, and help various segments of the workforce who are facing differing challenges.

Inadequate Retirement Savings

Women are worried about saving enough and about their financial security in retirement, and rightly so. They live longer than men, and they have less retirement income. Divorce and widowhood have significant negative consequences for their financial well-being. Current

¹ *Outliving Your Money Feared More Than Death*, Allianz Life Insurance Company of North America press release, June 17, 2010.

discussions about tax reform in 2013-14 would lead us to expect that policymakers would use the process as an opportunity to strengthen the retirement system and improve its effectiveness by including policies to improve the financial security of women (and men) and their families. We believe that much can be accomplished by strengthening and building on our existing retirement programs, such as Social Security, employer-sponsored plans, financially-innovative products, incentives for longer work, and increased financial education and planning to improve the financial security of older women.

Every year there is new research and literature showing that American workers are not saving enough for retirement. The Employee Benefit Research Institute's Retirement Security Projection Model 2012 shows that 44 percent of Baby Boomers and Generation Xers won't have enough retirement income to cover basic retirement expenses and uninsured health costs.² When looking just at Generation Xers that will have a shortfall, the average savings deficit for single females is \$133,349. This is the additional amount that a single female would, on average, need to save by age 65, to eliminate her projected retirement shortfall.³

Challenges Women Face

It's clear from the data that, no matter how you slice it, American workers are not saving enough for retirement. The recent economic crisis has made it even more difficult and low contribution rates and lack of understanding of the need for a comprehensive strategy means inadequate income for the rest of your life. These issues are compounded for women. For one, women live longer, which means women need more income and their retirement assets have to last longer. Older women are also more likely to have chronic (read: costly) medical conditions and need long-term institutional care. Further, older women are more likely to be single, which puts them at higher risk for poverty. It is at this later stage of life that many women become poor or in the near poor category for the first time in their lives.

Despite needing more retirement assets, women end up having less. In the case of single women over 65 today, fully half receive less than \$750 a year in income from assets.⁴ Factors that play into this include pay inequity, uneven work histories due to caregiving responsibilities, and a greater likelihood of working part-time where retirement benefits are not offered.

The result of these issues are included in a recent report by the GAO which identified that women age 65 and over have 25 percent less retirement income and twice the poverty rate of men.⁵ When widowhood or divorce occurs, the effects are even more harmful. The 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.⁶ Today, the rate of poverty for women age 65 and

² Employee Benefit Research Institute. *Retirement Income Adequacy for Boomers and Gen Xers: Evidence from the EBRI 2012 Retirement Security Projection Model*. EBRI Notes, May 2012.

³ Ibid.

⁴ Women's Institute for a Secure Retirement. *Fact Sheet: Single Older African American Women and Poverty*.

⁵ GAO. *Retirement Security: Women Still Face Challenges*. GAO-12-699. July 19, 2012.

⁶ GAO. *Retirement Security: Women Still Face Challenges*. GAO-12-699. July 19, 2012.

over is 10.7 percent, compared to 6.2 per cent for men.⁷ When looking at single women over age 65, the poverty rate jumps to 17.4 percent.⁸ In this mix is a poverty rate for white single women of 15.3 percent; 32.5 percent for single African American women; and 43.7 percent for single Hispanic women.⁹

Caregiving hurts women's savings opportunities

As noted above, while women earn less, live longer and are likely to live alone in old age, women also work fewer years by taking time out of the workforce for caregiving as their families' primary caregivers for both children and older parents. As caregivers, women are also more likely to work part-time in jobs without benefits. The Social Security Administration finds that among new retired-worker beneficiaries, women average 12 years of zero earnings. This is 12 fewer years to put money away through a defined contribution plan or IRA. Since caring for the family is not recognized as an economic contribution, women lose out by bearing the main share of this responsibility and the corresponding economic consequences. Caregiving can have serious financial consequences, especially for adults nearing retirement. Reduced wages and benefits result in missed opportunities for compounded returns on 401(k) matching contributions and less in savings and investments. Caregivers' also pay an estimate of \$5,531 annually in out-of-pocket costs for caregiving.¹⁰ A 2011 study showed that caregivers lost \$303,880 in wages, Social Security, and private pension losses as a result of caregiving responsibilities.¹¹

Another problem for women in or near retirement is that almost 20 percent of the 2.5 million grandparents responsible for grandchildren who live with them, were living in poverty. Half of the caregivers had been in this role more than five years. Many lose or quit jobs to care for children and incur more expenses that result in spending down retirement savings.¹²

Women must plan for 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 group¹³. This should not come as a surprise — since the retirement system is based on what workers earn — so women are left with inadequate pensions and savings. The result is that women must rely too heavily on Social Security as an income source in retirement.

⁷ Current Population Reports. Income, Poverty and Health Insurance Coverage in the United States, 2011. September 2012.

⁸ Women's Institute for a Secure Retirement. *Fact Sheet: Single Older African American Women and Poverty*. 2012.

⁹ Ibid.

¹⁰ National Alliance for Caregiving, *Caregiving in the U.S.*, 2009.

¹¹ The MetLife Study of Caregiving Costs to Working Caregivers, June 2011.

¹² *Growth in Grandfamilies Leads to Food Insecurity*. May/June 2012, Aging Today.

¹³ Women's Institute for a Secure Retirement, *Fact Sheet: Women's Retirement Income*, 2012.

In the workplace, women were more likely to work for employers that offered 401(k) plans than were men. This varies by racial groups and black women were the most likely to work for an employer with a plan while Latinas were the least likely. However, the gender pay gap is the major issue preventing women from contributing more to their defined contribution plans. A recent EBRI report suggests that while women in the aggregate had been closing the retirement participation rate over the last decade – down to less than one percentage point by 2009 – the recession caused women to fall slightly behind again in 2010 and 2011.¹⁴

Financial Capability

The reality of today's retirement landscape is do-it-yourself, and do it right, or live at or below the edge of poverty in what are supposed to be the golden years. The nature of today's system of individual responsibility demands financial capability. This is WISER's primary area of focus. We focus on women because of the challenges we set forth earlier. Women are in the difficult position of making big decisions while being unable to afford even a small mistake.

Women, along with their male counterparts, tend also to lack basic financial knowledge, which is often the reason for making serious financial mistakes. Women need the best information and opportunity to access information to ensure that they do not make costly decisions; this information should be targeted to women as spouses and caregivers, as well as to women as 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.¹⁵

One of WISER's key initiatives is a program administered cooperatively and funded by the Administration on Aging—the **National Education and Resource Center on Women and Retirement Planning**. The AoA/WISER Resource Center's primary goal is to educate the most women we can possibly reach with information that can assist them in their retirement planning. We seek to provide average and low-income women the opportunity to take the first step toward controlling their financial futures.

WISER's approach is to bring financial planning back to the basics. Our goal is to help women make the best decisions they can with the limited resources they may have. We train trainers who assist women in their communities. We explain the hard reality of having to adjust living standards to live within their means and to find resources in their communities that they may not be aware of.

The Center has directly reached tens of thousands of women through our own and our partners' workshops, and we've reached millions with our publications and website. The Center's strength is providing women with core financial knowledge that encourages them to make financial and retirement planning a priority in their lives. We focus on such issues as health and retirement

¹⁴ Employee Benefit Research Institute, *Employment-Based Retirement Plan Participation*, November 2012 EBRI Issue Brief.

¹⁵ 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.

benefits at work (or the implication of the lack of such benefits), the financial implications of providing care for children, parents and spouses, and the risks of inflation and longevity.

The Center's Business Advisory Council helps in disseminating education and information through the Community Partnership Program with the Financial Services Roundtable, as well as a long-standing partnership with the American Council of Life Insurers and several individual companies who help us further our education effort. Many other partners—employers, business and trade organizations, aging and women's organizations and community-based groups help spread the message and disseminate the Center's materials.

We also work with federal agencies, including the Department of Agriculture's Cooperative Extension Service, the Department of Labor, the Consumer Financial Protection Bureau and the U.S. Social Security Administration. Recently, both *Money* magazine and *ForbesWoman* have commended WISER, with *ForbesWoman* naming WISER's website, wiserwomen.org, one of the Top 100 Websites for Women in 2012.

Among the population we have reached are highly-educated nurses, executive women, childcare workers and low-income entrepreneurs. The common thread we found among these varying groups of women was that there was an additional obstacle for many women. That obstacle is putting everyone's needs ahead of their own. Many women were taken aback when the trainers encouraged them to fund their own retirement before spending money on their children and grandchildren¹⁶.

There is increasing evidence that planning for retirement is effective and work place seminars are helpful, but there is a need for more basic resources to help people figure out how much they need to increase their savings by in order to retire with security. We have included below a list of several issues that women are in particular need of learning about or better understanding.¹⁷ For example, we find that the following are key areas of retirement illiteracy:

- Asset to income ratio is not understood and how much is needed for a secure retirement.
- Longevity risk is poorly understood and not widely planned for.
- Value of guaranteed lifetime income or how to draw down assets.
- The impact of future inflation and taxes is not included in planning for retirement.
- Many women assume they will just keep working beyond normal retirement age, but more than 40 percent of Americans end up retiring earlier than they planned to, usually due to job loss, family needs including health issues, or personal poor health.

¹⁶ Women's Institute for a Secure Retirement, *Changing Investment and Savings Behavior of Nurses*, 2012.

¹⁷ *Retirement Literacy: A Key to Financial Security for Women*. Mathew Greenwald & Associates, Inc., WISER Symposium, Washington, D.C. December 7, 2012.

Agenda for Near Retirees:

- Educate near retirees on the value of claiming Social Security later to attain higher Social Security benefits.¹⁸
- 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.

Finally, we need to strengthen our existing programs wherever possible. That means focusing in particular on Social Security, employer-sponsored retirement programs, individual saving initiatives, financial products that promote increased economic security in old age and longer work incentives for women. 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.

¹⁸ *Innovative Strategies to Help Maximize Social Security*. James Mahaney, Strategic Initiatives, Prudential Financial. Updated Edition, 2012.

- 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.¹⁹
 - 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.

Conclusion

Mr. Chairman, thank you for including women's retirement issues as part of the broader discussion on retirement savings adequacy. As we hope our testimony has pointed out, women are at a particularly high risk for poverty in retirement, and there are a series of policy options that can help greatly avoid this outcome. We need to make it easier for people and give them some level of confidence that they can do this or they just throw their hands in the air and say I will never have \$2 million so what is the point. The point is that a little can go a long way and

¹⁹ Economic Security Initiative Fact Sheet 2012, National Council on Aging.

we know that women need confidence to build on their financial knowledge and make better decisions.

Finally, there is no single solution to these issues. We need to start understanding what the specific challenges are to certain segments and target those segments with a wide range of solutions from financial education, to guaranteed income product design, policy changes and other innovations. There are millions of workers who want to save and do not have access to any plan and do not know how to set up an IRA on their own– it is a very complicated process when you don't speak the financial jargon.

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