Improving the Financial Status of Elderly Women: Issues in Savings, Pension Plans and Social Security

Paper prepared for the CBA/WBAI Program on Women and Social Security

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Introduction

In the United States, financial security systems are based on a combination of employer-sponsored benefit plans, individual savings and insurance, Social Security and social safety net programs. Programs are often designed around a family unit, rather than solely for individuals. Financial security programs can be thought of as those that provide current coverage and those that provide for longer-term security, primarily in old age. For programs that provide current coverage, the family at the time is the appropriate family to consider. For programs that provide for longer-term security, family status over both the time the benefits are earned and the time the benefits are paid must be considered. For example, retirement plan benefits are earned while people are working and paid after people are retired. This paper focuses on longer-term security, particularly security in retirement, with emphasis on issues affecting women. Longer-term benefits include cash retirement benefits, retiree health, postretirement death benefits and long-term care.

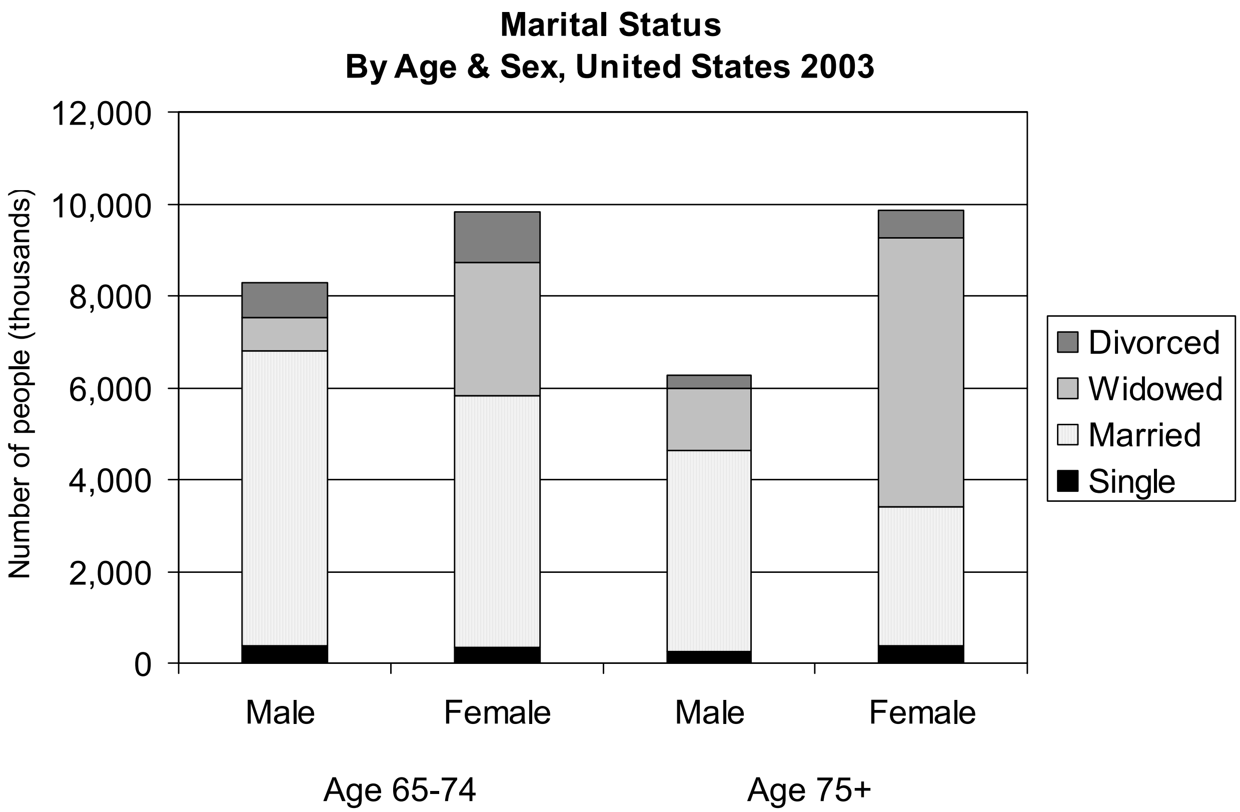
Background

The economic problems of the elderly are often problems of women because:

- The work histories of today's elderly women are such that they are likely to have lower pension and Social Security benefits than men. Some women have never held jobs that entitled them to pension credit, or remained in jobs long enough to have vested benefits. Women working today still have lower average earnings than men, so on an aggregate basis, this will not change for many years. The median number of years for workers retiring in 2000 was 44 for men and 32 for women. The median earnings of full-time workers in 2002 were $38,884 for men and $29, 680 for women. *(Source: Why Are So Many Older Women Poor?, Just the Facts on Retirement Issues, April 2004, Center for Retirement Research at Boston College, page 2)*

- On average, women live at least five years longer than men. Elderly women are much more likely to be living alone than elderly men, and are more often widowed and do not remarry (see Exhibit 1).

Exhibit 1



Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004-2005, Table No. 53

- Unmarried elderly individuals have considerably lower income than married couples. Exhibit 7 in the Appendix shows the percentage of married couples and families having various sources of income. The difference in cost of living is far smaller than the difference in income, so unmarried individuals, on average, have a lower standard of living. The percentage of non-married elderly women who are poor or near poor by age is as follows:

Exhibit 2

Age	Percent Poor or Near Poor
65-69	27
70-74	29
75-79	30
80-84	27
85 and older	33

Source: Why Are So Many Older Women Poor, Just the Facts on Retirement Issues, April 2004, Center for Retirement Research at Boston College, page 5

- There is often a drop in living standard at the time of widowhood. Social Security widow's benefits are lower than required to maintain the living standard of the couple if Social Security was their sole support. See the discussion below on Social Security's treatment of single and dual-earner families.

- Women are much more likely than men to need long-term care in an institutional setting.

Both men and women are disadvantaged because Americans are not very good savers. A retirement program can be viewed as consisting of two time periods: a period when assets are accumulated and a period when assets are used. Careful planning is needed for both periods.

Issues that affect both men and women are as follows:

- Decline of the defined benefit pension system.

- Growth of the defined contribution pension system with increasing reliance on stock and bond market for retirement security.

- Concerns about the financial stability of Social Security benefits and the form and level of benefits.

- Public attitudes and knowledge that do not encourage very much saving for retirement.

The differences in the economic status of older men and women come from a number of different factors, including:

- Family decisions about the allocation and use of retirement assets.

- Differences in work histories and earnings.

- Failure to organize a comprehensive system to provide and finance long-term care.

- Failure of many families to secure adequate life insurance on the main breadwinner, if there is a main breadwinner.

- A Social Security System that works very well for a single-earner family with a dependent spouse, but much less well for various combinations of dual-earner families.

- The same women who have to work hard as single parents to support children alone are often striving hard to make it in retirement since they had a very difficult time saving.

Resources for Retirement – Social Insurance vs. Property Rights

Resources for retirement can come from individually owned property or from various social insurance programs. Employer sponsored defined benefit plans are similar to social insurance and employer sponsored defined contribution plans are much more like property. The National Academy of Social Insurance's 2005 report *"Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy"* sets forth the contrast between social insurance and property.

Property rights are an essential part of a capitalist economy. The rights of property ownership are defined by law. Individual ownership usually implies control of an asset and discretion about its use. In the case of a defined contribution pension plan account, control and discretion about use may be limited. For example, the investment of assets is limited to the asset arrangements limited in the plan and the discretion about use is limited as to timing. Distributions are available only as provided for in the plan. If individual accounts were part of federal social insurance programs, the program would define investment and distribution options. The program would also define whether the accounts would be split on divorce and how and under what circumstances there would be splitting. Property rights do not focus on adequacy and by definition offer individual equity.

The Uncharted Waters report (page 3) says about social insurance: "Like property ownership, social insurance seeks to preserve individual dignity and self-reliance, although methods differ for accomplishing these goals. Social insurance emerges, in part, as a response to market failure in private insurance." Social insurance may involve considerable redistribution among covered persons. For example, lower paid persons can get relatively better benefits than higher paid. Benefits can be provided to widows and divorced persons based on a formula without needing to consider whether the specific individual paid a "premium" for this coverage. Social insurance balances adequacy and individual equity according to the values of the enacting body. Policy discussions today with regard to Social Security, private pensions and private health benefits all have elements of considering social insurance vs. property rights.

Family Patterns, Personal Decisions and Their Economic Consequences

Today, although marriage is still the expected family structure, it is quite common for couples to live together without being legally married. Household units can consist of single persons, couples, or other groupings. They may have children. Households can be a single economic unit, or where there are multiple adults present, they can represent multiple economic units. In some states, same sex couples can now marry. Married couples can separate without getting legally divorced. However, the legal status and term of marriage is very important in determining rights to Social Security and pension benefits. At the same time, the legal status of marriage also determines how federal income tax is determined. Unfortunately, many individuals do not understand the relationship of marriage and these benefit rights.

The range of family situations includes the following:

- Married and living together with one earner and one caregiver/homemaker in the family.
- Married and living together with two earners, where both earnings and homemaking responsibilities can be split many ways.
- Single parent households.
- Single persons.
- Living together, but not married with one earner and one caregiver/homemaker in the family unit.
- Living together with two earners with various splits of homemaking, outside work and earnings.
- Married, but not living together, where the absent spouse offers support to children, if there are any.
- Married, but not living together, where the absent spouse offers no support to children if there are any.

For each couple with children, there is a variation where the children are children of a former marriage. Many people are married more than once, and often families consist of two adults and children from multiple marriages. In such cases, the support of the children may be split between natural parents and current or former spouses of natural parents. Women often bear a major share of the support of children, and are left with relatively little to save for retirement. Individuals move through different family situations over time. There are also household economic units with more than two adult members, but that is beyond the scope of this discussion.

Homemaking and caring for the family add value to the family and are an economic contribution, just as working outside the home is. However, the economic system does not directly recognize this contribution. Family units may have different economic understandings about their property rights, and depending on their legal status and the jurisdiction they are in, there are different legal requirements. Retirement policy has not recognized well the range of situations. For example, requirements which may protect a homemaking spouse may also protect an absent spouse not supporting the family. More thinking is needed to understand the diversity in family patterns and protect only what is equitable to protect. Women are most likely to be homemakers, and they also are most likely to be single parents supporting children.

Ability to Plan and Manage Effectively

Family units differ in their economic sophistication and planning capability. Some Americans lack experience with financial institutions. The size of the "unbanked" population – those who do not have a checking or savings account with a bank or credit union – is estimated to be between 10 and 20 percent of all U.S. families. *(Source: Uncharted Waters, National Academy of Social Insurance, 2005, page 10)*. The "unbanked" population is unlikely to be participants in 401(k) plans and other employer sponsored retirement programs. If individual accounts become part of social security, this group will need basic financial education in order to deal with the accounts, and if they are to save on their own, they will need much more than investment education. Mathematical skills are also a problem with some Americans not understanding budgeting, how to calculate percentages, or the time value of money.

Choice is a highly valued part of 401(k) plans and employee benefits today. However, within the population covered by 401(k) plans, there are a number of employees who do not make choices effectively. It is common to find a significant number of employees who choose the default options in their plans, and who never make changes from these default options. This has led to a new focus on the design of plans so that default options will produce a reasonable result for those who do not choose. Research has shown that the population can be segmented into those who are good planners, those who are not engaged, and those who are somewhere in the middle. For example, research by Vanguard divided people into five groups by money attitudes:

Exhibit 3

Group	Percentage of Total
Successful Planners	21%
Up & Coming Planners	26%
Secure Doers	20%
Stressed Avoiders	19%
Live-for-today Avoiders	14%

Source: Olivia S. Mitchell and Stephen P. Utkus, Pension Design and Structure: New Lessons from Behavioral Finance, Oxford, 2004, Page 108

Research also repeatedly has shown that the public does not understand investments, retirement planning and the choices that they need to make to plan for an effective retirement. A new research report Public Misperceptions about Retirement Security looks at findings from a variety of research studies and identifies ten areas of concern with regard to public knowledge about retirement. *(Public Misperceptions about Retirement Security, 2005, Society of Actuaries, LIMRA International, Inc, Mathew Greenwald & Associates)* Some of the issues highlighted in this report include the following:

- Longevity risk is poorly understood and not planned for. This is a particularly serious issue for women since they live longer.

- More than 40% of Americans end up retiring earlier than they planned to retire, usually due to job loss, family needs including health issues, or personal poor health.

- Many people do not understand how investments work. For example, they do not understand what a money market fund is.

- A substantial number of people believe that the common stock of their employer is less risky than a diversified portfolio of common stocks. Findings in the research series over a long period showed virtually no change after the problems with Enron and the accompanying publicity.

- Many people do not save enough, and they do not estimate their needs well.

- Many people fail to consider the impact of future inflation.

At the present time, the retirement system is moving toward requiring more action and responsibility on the part of individuals. At the same time, there are several major gaps in the ability of Americans to deal with this responsibility. Between 10 and 20 percent of the population do not participate in basic financial vehicles such as bank accounts. Of the population currently covered by 401(k) plans, a significant percentage does not make choices and do not participate in planning. It appears unlikely that education will change those behaviors for many in this group. The public at large, including those who do participate in 401(k) plans, includes many people who do not have needed knowledge and who are operating from misperceptions.

While better education is very important and can improve the situation, it is important that the retirement system work reasonably well for Americans who do not have the expertise to plan and for those who do not choose to plan. Otherwise considerable numbers of people will be left out.

Implications of Family Differences

Family differences in structure and planning ability need to be considered when Social Security design is reviewed. They also must factor in defining policy for joint and survivor benefits and spousal consent. Social Security benefits are provided for non-working spouses, and after retirement for a divorced spouse after ten years of marriage. For the person with some years in and some years out of the workforce, there is an effective loss of benefits in that the benefit provided is based either on a dependent or worker status. Benefits are calculated both ways, and then the higher amount is paid. Private plans protect spousal rights through spousal consent and joint and survivor benefits. The participant can select the form of benefit payout, but spousal consent is required to elect out of joint and survivor benefits.

These issues point out the need for education, particularly for women. Throughout life, decisions are made which can affect Social Security and pension benefits, but without realization of how these benefits are affected. The decisions include accepting a job, leaving a job, marrying, getting divorced, property division at divorce, etc.

Spousal Rights

Retirement planning is both an individual and a family activity. But in many situations a couple will be saving or earning the right to benefits during some years, but they will no longer be a couple by the time benefits are being paid. In such situations, the spouses may have different rights to benefits. Spousal rights are defined by state family law in some cases, and by Federal law in others including the Social Security act and various laws governing pensions.

In Social Security, it is Federal law that defines the system and spousal rights. Benefits are paid to spouses of workers and deceased workers. In a single earner family, the non-earning spouse gets a spouse's benefit of 50 percent of the worker's benefit while both are alive and a spouse's benefit of 100 percent of the worker's benefit after the death of the worker. In a dual earner family, the lower earning spouse gets a benefit determined using dual entitlement. The benefit is equal to the worker benefit plus the excess of the spouse's benefit over the benefit as a worker. About 14.0 million, 30 percent of all Social Security beneficiaries, receive benefits based at least in part on a spouse's work record. About 6.0 million women are dually entitled so that they get a higher benefit as a widow, wife or divorced wife than the benefit they would get as a worker. Another 7.8 million women receive Social Security solely as widows, wives or divorced wives. *(Source: Uncharted Waters, National Academy of Social Insurance, 2005, page 15).* The cost of spousal benefits is spread among all Social Security participants. There is no adjustment to individual family benefits to pay for these additional benefits. On divorce, the prior spouse gets benefits similar to those that they would have gotten provided that the marriage continued for ten years and provided that the spouse does not remarry.

In private defined benefit pension plans, Federal law requires that for married participants the normal form of benefit be a qualified joint and survivor benefit. Under a qualified joint and survivor benefit, pension income of at least 50 percent of that paid to the couple must continue to the non-worker spouse. If the plan offers a lump sum or other options, spousal consent is required to opt out of the qualified joint and survivor benefit. The individual participant normally pays for this spousal annuity at least in part, as the annuity benefit payable while both are alive is usually reduced to reflect the value of the survivor benefit. The reduction varies by plan and age, but it would not be uncommon for the annuity payable to a couple to be $850 per month if the life annuity is $1,000 per month. In this case, the continued benefit if one dies is $850 to the worker if the non-worker spouse dies and $425 to the spouse if the worker dies. Spouse's benefits are payable for life and usually are not indexed for inflation. Some benefits to spouses are also provided if the worker dies after vesting and before retirement. Defined contribution plan benefits are like property rights and the accounts are payable to heirs on death and are treated like property on divorce. Private pension benefits can be divided by state domestic relations courts on divorce. Community property states automatically divide the value of these accounts. Federal law sets forth some requirements to be met in order for the plan to pay such benefits.

If individual accounts were a part of Social Security, it would be necessary to determine what spousal rights are attached to these accounts. It would also be necessary to determine if they are to be state or Federal governed. If they are treated like property rights, they could probably be left to any beneficiary. If treated more like social insurance, they would be automatically left to a surviving spouse for married individuals. Many decisions would be needed to structure spousal rights under an individual account system. It would need to be determined if these benefits can be paid as a lump sum or if they must be annuitized. In the case of a worker with more than one current or former spouse, there would be the question of what is paid to each individual. Additional issues must be considered when individual accounts are used as an offset to basic income benefits. *Uncharted Waters*, a 2005 report from the National Academy of Social Insurance includes an extensive discussion of the property rights issues that would arise under Social Security if it included private accounts.

How Issues Should be Addressed

Retirement security issues are far-reaching and extend to many different areas in people's lives. Addressing them requires considering a combination of policy and individual initiatives. Broadly from a policy perspective, there are critical things to keep in mind:

- It is important to restore stability to, build and maintain a strong private pension system. Individuals are much more likely to save when their employer sponsors a program, and even more likely to save if a match is included. Adding requirements which may weaken the system overall are not helpful on balance. The system is under a lot of strain because of instability and complexity of the requirements imposed on plan sponsors today. A first step in dealing with private plan issues is to stabilize funding rules in a way that works for the participants and plan sponsors.

- As issues related to Social Security are considered, it is important not to forget the specific situations of women and of families with different economic structures. These issues need to be addressed as part of the reform effort.

- Pensions are not a substitute for the social safety net. The social safety net goes well beyond Social Security, and is critical to the welfare of the poorest elderly women.

- Facilitating a strong long-term care system is very important for women. We must be concerned how women are going to acquire and finance long-term care.

- Personal decisions are very important for security in old age. In spite of this, many people are unaware of how decisions will affect them and ill equipped to make some of the decisions. Education is critical in helping prepare people to look for issues at important crossroads.

These issues go beyond many of the specific pension issues raised with regard to women, and are fundamental to long-term security for women.

Social Security

It has been recognized that on a long-term basis, Social Security taxes will be inadequate to provide benefits based on the current pattern of benefits. Under the 2005 Trustee's report, income is projected to be 13.87% of taxable payroll over 75 years, and expenses are projected to be 15.79% of taxable payroll leaving a deficit of 1.92%. The trust is projected to be exhausted in 2041 and benefits will need to be cut if no adjustments have been made previously.

Major changes are being discussed in the system. The administration proposes individual accounts to replace part of the current benefit. A variety of other reforms have been considered. Exhibit 4 lists reforms and discusses their impact on women.

Exhibit 4

Social Security Reform Options and Their Implications for Women

Option	Discussion of Issues Relative to Women
<u>Raise the retirement age to 70 by 2030 and keep adjusting the age as people live longer</u> This option would eliminate 68% of the current deficit. (Note: that as life spans continue to increase, this issue will remain on the table, and while difficult, it is a very important one to address.)	Women live longer than men and many experts believe that arguments relating to the logic of increasing retirement age are powerful. To the extent that women rely on Social Security more than men, they are going to be more effected by retirement age changes. The differences in life span have continued since the Social Security system started. For some women, retirement decisions are timed to their husband's decisions, and in some cases, it is illness that encourages retirement. For some such women, increasing the retirement age is a hardship.
<u>Reduce cost-of-living adjustment (COLA) by ½ percentage points</u> This option would eliminate 42% of the current deficit.	The impact of such a change would be greatest on people who live longer. Widows, particularly in two-earner families, are already poorly off, but that situation should be dealt with directly.
<u>Reduce benefits by 5% for future retirees.</u> This option would eliminate 32% of the current deficit.	To the extent women are less well off in old age, this would have a greater impact on them. To the extent that women have lower benefits, this would have a lesser impact on them.
<u>Affluence test: reduce benefits for those whose total retirement income exceeds $50,000 per year</u> This option would eliminate 75% of the current deficit.	This has less impact on single women than single men and less impact on single persons than couples since they have lower income. This option preserves benefits for those most in need. This option could hurt everyone by discouraging savings and encouraging people to hide assets. It might also serve to reduce overall support for the system if it is seen as more of a welfare system.

Option	Discussion of Issues Relative to Women
Raise payroll tax on workers and employers by 1/2 percentage points each. This option would eliminate 51% of the current deficit.	There are no direct issues for women.
Increase wages subject to Social Security tax Raising the $90,000 limit by about ¼ would eliminate 26% of the current deficit.	This has less impact on women than men, because fewer of them are high earners.
Tax Social Security benefits like pension benefits This option would eliminate 20% of the current deficit.	There are no special issues for women.
Include new state and local workers. This option would eliminate 11% of the current deficit.	There are no special issues for women
Invest 40% of the Social Security Trust Fund in private investments such as stocks The impact on the deficit is heavily dependent on the rate of return assumption. Estimates are that this option would eliminate from 0% to 48% of the deficit.	There are no special issues for women.
Create personal retirement accounts. (Divert some part of the payroll tax to a private account) Setting up personal accounts does not eliminate any part of the deficit. Financial impact depends on the specific proposal	Which women were helped and which were hurt would depend on how property rights to the accounts are treated. A system built on property rights and individual accounts in contrast to the current system would hurt the most vulnerable, many of whom are women. Individual accounts without some form of earnings sharing or substantial minimum benefits would be devastating to women without earnings of their own. Women in two earner families who currently get benefits based on their husband's earnings would probably be helped by individual accounts. Women's lower earnings and shorter working years combined with low contribution rates will produce smaller account values than men; annuitization of an equal account values will produce a smaller annuity for women than men If there is less redistribution in the system, higher income individuals including women are likely to be helped. Also, two earner families are likely to benefit relative to single earner families.
Price indexation option suggested by 2001 Presidential Commission Under this option, initial benefits will keep up only with inflation not wages, so that benefits will gradually fall. The average difference between wage and price inflation has been 1.1% per year.	Women who are more dependent on Social Security than men will be impacted more than men

Widow's Social Security Benefits and Single vs. Dual Earner Couples

One reform discussed many times in the past, but not on the current list of reforms is modification of spousal benefits. Such a change addresses inequities between single and dual earner couples, but it does not solve the financial problems of the system. Depending on how implemented, it could add cost. One past proposal was to reduce the spousal benefit while both are alive to 33-1/3% and then provide a widow's benefit of 75% of the joint benefit. Another suggestion would be increase the widow's benefit to 75% of the combined benefit, but without any change in the spouse's benefit. That change would increase cost and has not been recommended in recent years.

To understand the need for these changes, it is important to understand how Social Security treats single vs. dual earner families. Depending on pay level, there are significant differences in retirement and widow's benefits for families with the same earnings' histories, but different splits of earnings between the spouses. These families had the same earnings while they were working, and can be expected to need the same replacement income Families with dual earners are often subsidizing single-earner families. An example will serve to show how serious these issues are:

Exhibit 5

	Family A	Family B
Husband earns	$34,200	$17,100
Wife earns	0	$17,100
Annual Social Security tax	$2,120/year	$2,120/year
Total benefit at retirement*	$1,623/month	$1,348/month
Total benefit to survivor	$1,082/month	$674/month

**Assumes both are age 65 and retire in 1998.*

Both families had the same income and paid the same social security tax. Yet Family B has $275/month less in social security benefits while both spouses are alive, and $408/month less in survivor benefits after the husband dies. This happens because Family A gets spouse benefits, but family B does not. This is particularly distressing since this is a middle income family close to the national average and because of the documented decline in economic status in widowhood. The people being hurt here are middle class working Americans, not the wealthy.

Graphs in the Appendix show the split of Social Security benefits for families with earnings $34,200, $68,400, and $102,600 (one-half of the Social Security wage base in 1998, the wage base, and 150% of the wage base, respectively). Also attached are additional examples from a 1992 report prepared for the Congress. The author is not aware of further Congressional focus. This has confirmed that the issues illustrated still apply in 2005.

It is important to remember these issues as Social Security Reform is discussed. The exhibits in the Appendix illustrate the problem of current inequity in Social Security benefits.

Employer-Sponsored Retirement Plans

Women's issues are currently on the back burner as retirement benefit issues are being considered. There has been a major decline in defined benefit plans. Today, instability and adverse circumstances with regard to funding rules and reform are a substantial threat to the system.

Women tend to receive lower pension benefits than men. This is the result of a combination of forces related to the choice of jobs and whether they have pension coverage, what type of pension coverage, job tenure at time of termination and the level of earnings. The pension system is very closely linked to earnings, type of job and employer and tenure of employment. Changes in employment patterns are necessary if women are to earn equal pension benefits in their own right. As mentioned above, there are still considerable gaps in earnings.

Women have lower pensions than men on average and fewer receive private pensions. In 1996, 55% of men and 32% of women received pension benefits. The average benefit was $11,784 for men and $5, 230 for women. *(Source: Why Are So Many Older Women Poor, Just the Facts on Retirement Issues, April 2004, Center for Retirement Research at Boston College, page 3)*

The trend to defined contribution plans can be viewed as good or bad news for women. When they are covered by a 401(k) plan rather than a traditional pension plan, women tend to benefit from earlier vesting and earlier benefit build-up. They usually lose traditional plan spousal protections including survivor income and the requirements for consent for taking a lump sum from a plan. Since they change jobs more often, the earlier vesting and benefit build-up can be particularly valuable. *(Source: 401(k) Plans and Women: A "Good News/Bad News" Story, Just the Facts on Retirement Issues, January 2005, Center for Retirement Research at Boston College).* However, in order to capitalize effectively on the earlier build-up, it is critical that the funds saved be used for retirement purposes. There is a danger that they will be withdrawn and spent. Those women who take time off for child raising lose out during the time they are out and they lose out doubly if they do not focus on early saving before taking time off.

The system also implicitly assumes that where there is a worker and a non-working spouse that the benefits earned (just as paid earnings during work) will provide coverage for both. This leaves women who have chosen to take lower-paying work or dropped out of the labor force for a while to handle family responsibilities with considerably lower pension benefits than women who have worked continuously at full-time work.

Recent trends in retirement benefit planning indicate an increasing amount of retirement benefit is paid out as a lump sum. In addition, IRAs and other personal savings are becoming an increasing amount of retirement benefit. The need for education in saving, investing and estate planning increases the more benefits are based on lump sum cash rather than annuity-based benefits.

Managing a pool of assets will be a necessary part of the retirement trends in the future. The retiree will need to assess how much assets will be needed for retirement, budget and save to meet the goal, invest the funds before retirement, manage the disbursement of the funds and invest them after retirement, and understand estate planning techniques to maximize the transfer of assets, if any, to heirs upon death. The retiree will need to factor in complicated issues concerning inflation, acceptable investment risk/return levels and time horizons, living standards before and after retirement, health coverage, long-term care and/or assisted living.

Health Care Issues

Security in retirement also depends on having access to financing for health care. Medicare is provided to Americans over age 65. Medicare covers about half of total health care costs for this population. There is a lot of coverage for acute medical care including hospital and physician care, very limited coverage for long-term care, and no coverage for prescription drugs before 2006. There are no public programs covering individuals under age 65 unless they are eligible for Medicare as disabled individuals, or unless they are poor and eligible for Medicaid.

Some employers continue medical coverage for retirees, usually with significant cost sharing. Eligibility is normally after a long period of employment and benefits cover spouses as well as retirees. While these plans provide availability to health care coverage, the cost of the coverage may increase over time and become cost prohibitive. However, it is very important to investigate the availability of health care from employer plans in considering retirement. Where employer plans are not available, individual coverage is expensive and difficult to secure for retirees who are not Medicare eligible, particularly for people in poor health. For individuals eligible for Medicare, there are good supplements and options available in the market. Insurability is not an issue for people who enroll promptly.

The Frail Elderly

Most discussions of retirement benefits do not include long-term care benefits or other provisions to care for the frail elderly as part of the retirement package. However, many of the individuals who live to older ages (particularly after age 80) will require long-term care.

Where one member of a couple requires long-term care in a nursing home, it is likely that the survivor will be impoverished after the first death. Often, virtually all of the couple's assets are required to pay for the long-term care.

Much long-term care is provided at home by family members. For married couples, the healthy spouse often provides care for the spouse who needs care. Women, who are much more likely to be alone, are more likely to need institutional care. The needs for support in old age increase by age group, and where long-term care coverage is available, much of the need is for help for people who are not that disabled, but who still require assistance.

Over 20% of the elderly require assistance, and that the percentage has dropped over time. Assistance needs are measured based on inability to perform without assistance activities of daily living (ADLs) and instrumental activities of daily living (IADLs). Exhibit 6 provides data by age group, and shows the increasing needs for assistance at older ages.

Exhibit 6 Age-Specific Estimates of Chronic Disability Prevalence (United States) 1982 and 1994		
	1982 Rates (Percent)	**1994 Rates (Percent)**
Nondisabled		
65-74	85.9%	88.5%
75-84	68.1%	73.1%
>85	34.8%	40.2%
Only IADL Impaired		
65-74	4.3%	3.1%
75-84	7.2%	5.5%
>85	7.9%	7.2%
ADL Impaired or Institutionalized		
65-74	9.8%	8.4%
75-84	24.7%	21.4%
>85	57.3%	52.7%

Source: Table 1, "Chronic Disability Trends in Elderly United States Population: 1992-1994" by Kenneth G. Manton, Larry Corder and Eric Stallard Proceedings National Academy of Science, USA, Vol. 94, pp. 2593-2598, March 1997.

Nearly half of nursing home care has been paid for by Medicaid in recent years. However, as Medicaid programs are reformed, it is likely that there will be less funding for long-term care in Medicaid. This is a very serious issue. If the economic problems of elderly women are to be satisfactorily addressed, the long-term care issues must be addressed.

Private Pension Legislation

Over the last 30 years, there has been a considerable amount of pension legislation. Some of it has been designed to help raise federal revenue and reduce the budget deficit, whereas other legislation has been designed to protect participant rights. Some abusive practices have been banned. At present, there is no unified national pension policy, so each proposal is evaluated based on the agenda of the year (or month).

The Baby Boomers are aging and there is great concern that while the elderly today are better off overall than the elderly of 25 years ago, this will reverse so that tomorrow's elderly will not be as well off as today's elderly. There is a great deal of need for a comprehensive national pension policy that can serve as a backdrop for both private pension and Social Security legislation.

The situation in 2005 can be divided into short-term critical issues and long-term issues. The biggest short term critical issue to enact is defined benefit funding reform that will stabilize funding in a way that fits the needs of plan sponsors and participants. The history of the last few years is that contributions escalated very rapidly due to a combination of funding requirements, disruption resulting from the discontinuance of 30 year treasury bonds, and changes in the economic environment. The provisions of the funding rules that did not allow tax deductible funding during years of good market performance laid the ground work for the problems of the last five years. If the short-term issues cannot be resolved in a reasonable way, then there is no long-term to worry about on the defined benefit side.

Longer term, a key issue is whether confidence can be restored in the private defined benefit pension system and whether it can again grow. The effect of the legislation of the last 30 years has been to frustrate plan sponsors and weaken the system. At the same time of global competition, many mergers and acquisitions and corporate restructuring have made long-term employment harder to attain. Job security is now a major concern of Americans whereas for many years, it was essentially assumed. A strong pension system is the best way to improve the security of future generations of working American women. More people have defined contribution plans, but many do not have the discipline and skills to use them well. Adding safe harbors for good defaults is an important step.

There are specific legislative issues relating to women and family. These will again be important only if the system can be stabilized. In 1984, Congress enacted the Retirement Equity Act to help protect the pension rights of women. Included in that legislation were provisions permitting the splitting of pension benefits on divorce; requiring distributions in the form of a joint and survivor annuity, except where the spouse consented otherwise; and adding mandatory pre-retirement death benefits. It is important to recognize that women are a diverse group and what will protect one group of women may disadvantage another. Both men and women earn rights to benefits and have diverse family situations. For example, a requirement for spousal consent on distributions will protect a non-working spouse and, therefore, the female homemaker. It also protects male spouses, including some who are absent and have left a wife with children to support, but who have never gotten divorced. What seems very logical for a spouse who spent time caring for a home and children seems unfair for an absent spouse. The 1984 changes had some flaws in operation:

- The requirements were written as if all families fit one pattern. While they legitimately addressed the needs of the homemaker and lower-earning spouse who was essentially a homemaker, they also extended rights in some situations which were quite unfair. The absent parent not sharing in the support of children is the worst example.

- The pre-retirement death benefits were quite small and deferred several years, so that they offered little meaningful death benefit. Life insurance, which is outside of the pension system, is the major means of death protection for most employers, so that this requirement was largely symbolic.

- The public and the divorce bar were not prepared to deal well with pensions in many divorces and, in many other cases, family formation and break-up were not defined by marriage and divorce.

It is important to recognize that most of the issues relating to the economic status of older women will not be effectively solved through the private pension system.

Conclusions: Directions for the Future

As stated earlier, the fundamental reasons for the differences in pension benefits between men and women are differences in work histories, types of jobs and earnings' levels. These are not differences that can be resolved within the pension system. The differences in social security benefits relate to the interaction of the system structure with family and work patterns. We must look more broadly to finding avenues to better security for women.

To improve the economic status of older women and to assure a good economic future for older women, it is important to:

- Increase public awareness of the importance of saving, increase savings levels and improve the financial literacy of the savers.

- Recognize the value and importance of employer sponsored plans and support them. Encourage employers to offer pension plans and maintain a strong private pension system; develop a sound pension policy on a national basis. Start by stabilizing funding rules and then set good long-term rules.

- Make the changes needed in Social Security to assure that we will have a strong Social Security system going forward. The author's preference for changes is to start by increasing retirement ages. The author's preference is to limit private accounts to supplemental accounts.

- Modify Social Security so that it will better handle a variety of family patterns, with particular attention to see that the needs of two-earner families and of divorced women are handled reasonably. As part of this change, increase survivor benefits, probably trading off for lowered spousal benefits while both spouses are alive. Decouple benefits to divorced persons from continued benefits to married couples.

- Ensure that the social safety net programs are strong and serve as a way to protect those people who are poor and do not have the family earnings' history to secure either pensions or Social Security.

- Develop a better system of financing and providing long-term care.

- Provide better public education in financial planning including planning for contingencies such as death and divorce. Provide information to help individuals understand the impact of decisions about taking jobs, leaving jobs, getting married, getting divorced, etc. Start education young so that financial literacy including basic math, household finance, and the time value of money are part of getting a high school diploma.

- Better protection for widows. Note that there are tradeoffs between different methods of providing protection to surviving spouses including the use of survivor benefits in pensions, setting aside assets, providing life insurance, and providing long-term care insurance.

- Do not look to the pension system as a means of solving pension differences due to differences in work patterns and wage rates. To the extent that changes are needed in employment patterns, deal with them directly.

Percent Receiving Specified Sources of Income, 2002
Married Couples and Unmarried Persons Age 65 and Older

Type of Income	Total	Married Couples	Unmarried Men	Unmarried Women
Percent Receiving				
Social Security	90	91	87	89
Pensions – total	41	51	39	32
Public employee pensions *	15	19	13	13
Private pensions	29	37	28	21
Income from assets	55	67	47	48
More than $1,000 a year	36	45	30	29
Earnings from work	22	36	18	12
Supplemental Security Income	4	2	5	6

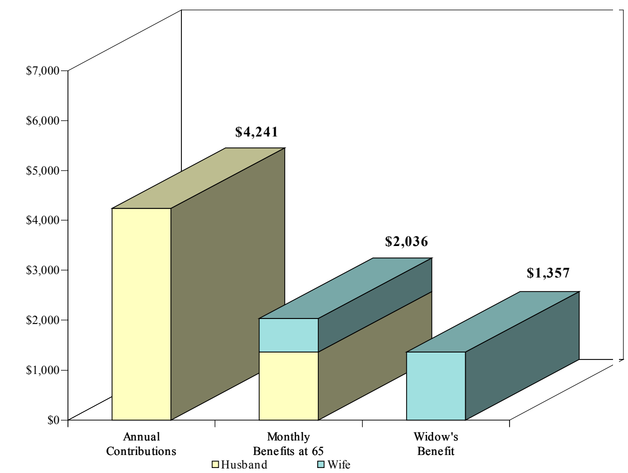
* Includes government employee pensions – federal military and civilian and state and local.

Source: "Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy", National Academy of Social Insurance, January 2005, figure 2-2.

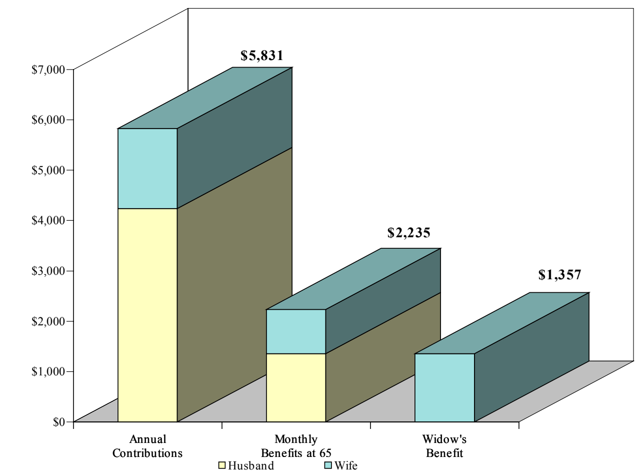
Appendix
Exhibit 8

How Social Security Works
Total Family Income: $102,600

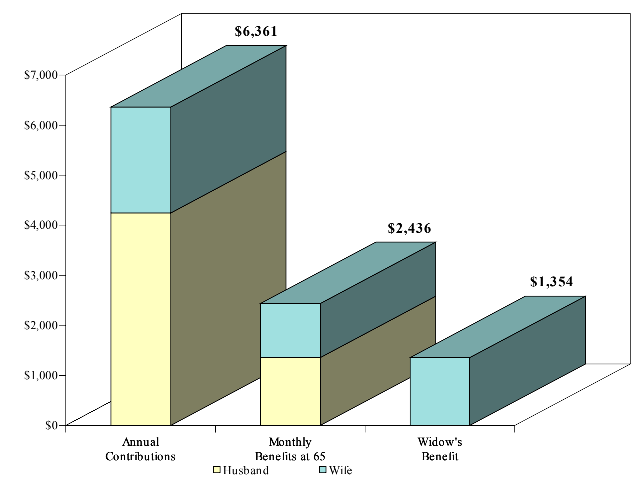
Husband's Income: $102,600
Wife's Income: $0



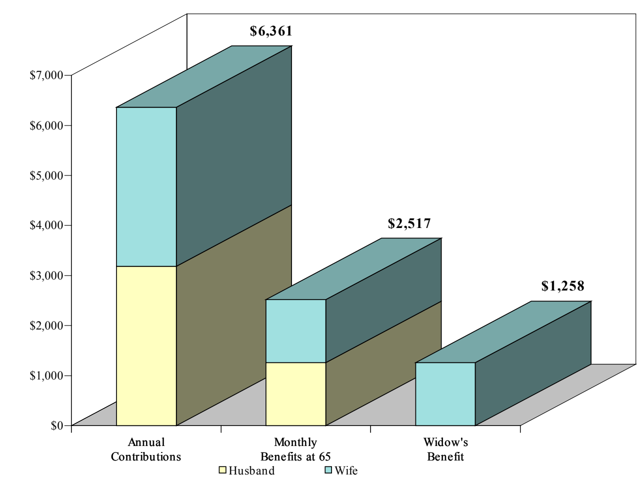
Husband's Income: $76,950
Wife's Income: $25,650



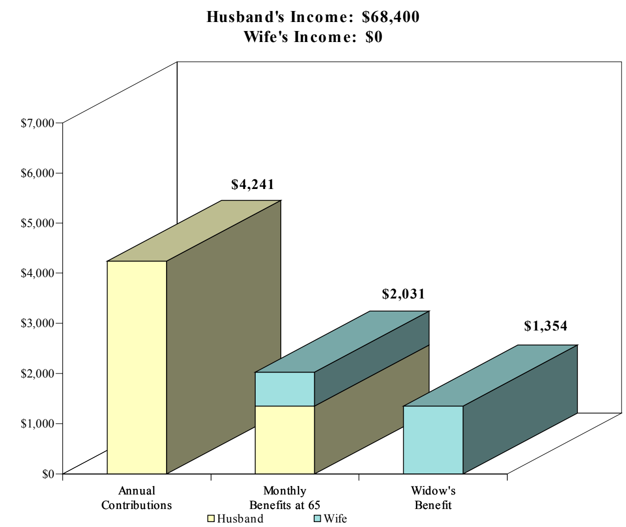
Husband's Income: $68,400
Wife's Income: $34,200

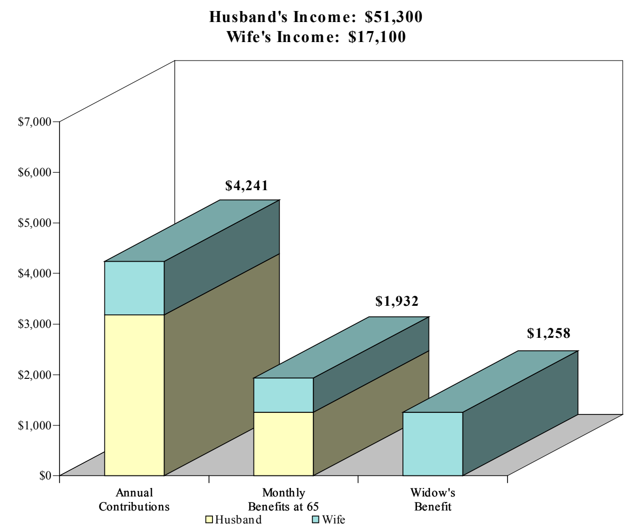


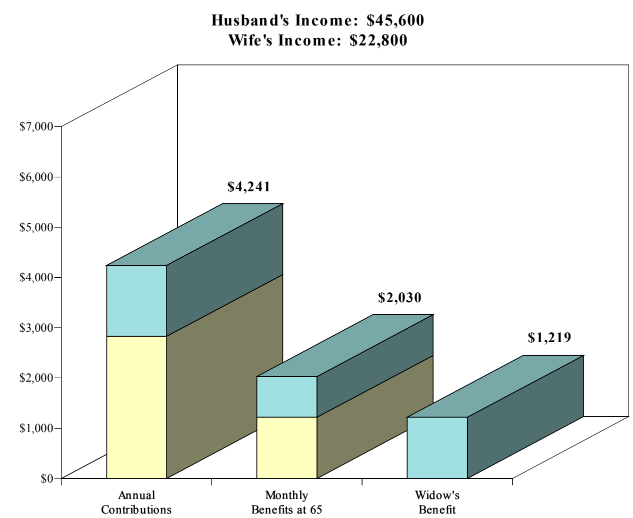
Husband's Income: $51,300
Wife's Income: $51,300

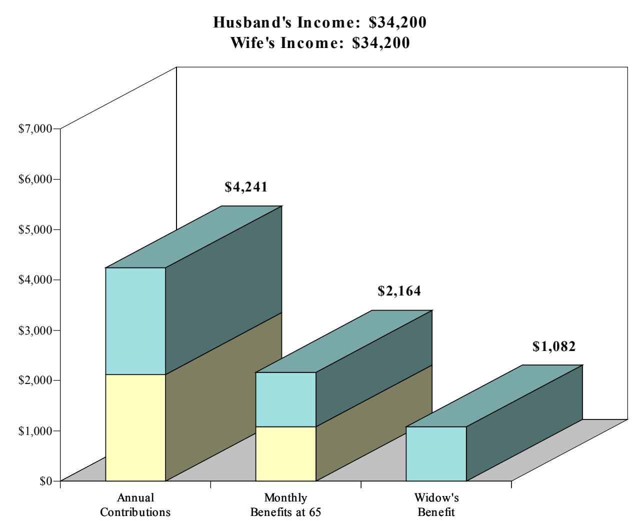


How Social Security Works
Total Family Income: $68,400

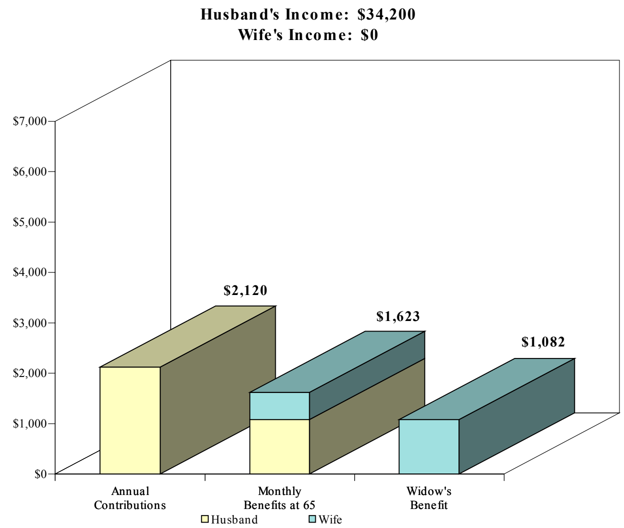


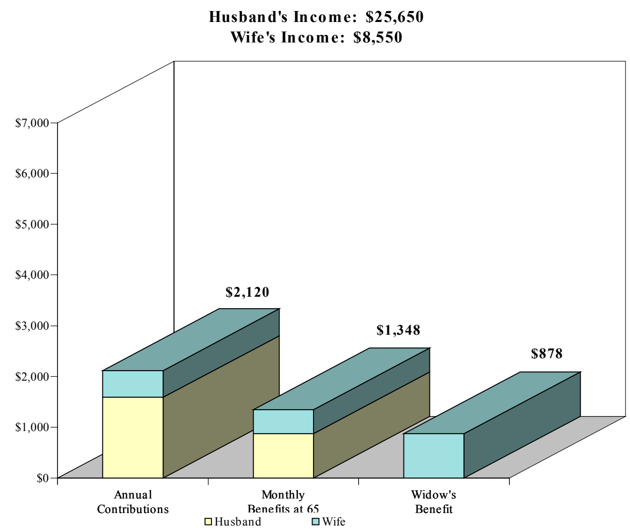


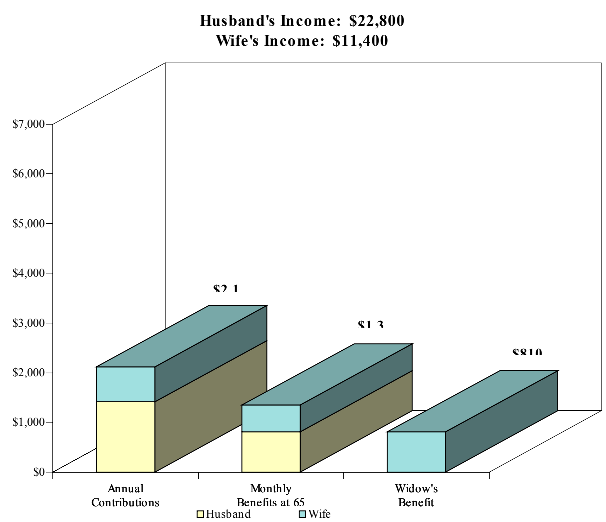


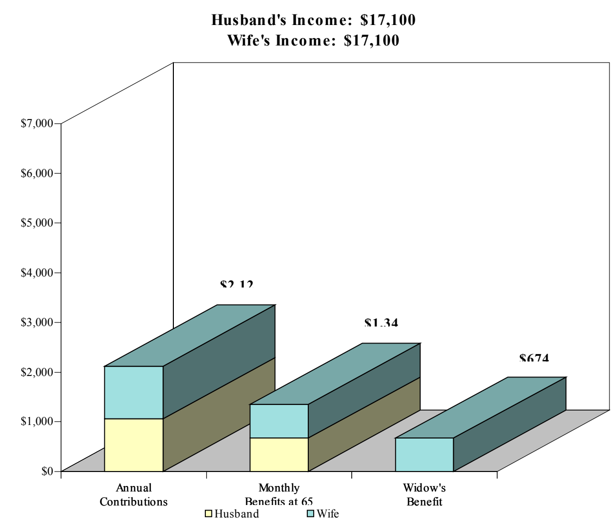


How Social Security Works
Total Family Income: $34,200









Appendix
Exhibit 11

1992 Earnings and Contributions and Monthly Social Security Benefits (in 1992 dollars) for Workers Retiring in 2010[a]

	Abbotts	Bonos	Costellos
Earnings			
Husband	$70,000	$27,750	$50,000
Wife	0	27,750	20,000
Family Total	70,000	55,500	70,000
Contributions (OASDI)[b]			
Husband			
Employer	$3,441	$1,721	$3,100
Worker	3,441	1,721	3,100
Wife			
Employer	$0	1,721	1,240
Worker	0	1,721	1,240
Family Total	6,882	6,882	8,880
Benefits			
Husband	$1,420 (WB)[c]	$1,011 (WB)	$1,420 (WB)
Wife	710 (SB)[c]	1,011 (WB)	710 (SB)
Family Total	2,130	2,022	2,130
Survivor Benefits			
Amount	$1,420	$1,011[d]	$1,420
As Percent of Couples Benefits	67%	50%	67%

Footnotes:

[a] Benefits are for workers retiring at age 66 (full benefit retirement age) in 2010. Workers are assumed to have the same relative level of earnings throughout their careers.

[b] OASDI contributions were based on SSA in 1992 tax rate of 6.2% and maximum earnings of $55,500. Earnings above $55,500 are not considered for Social Security purposes.

[c] WB = Workers benefit; SB = Spouse benefit.

[d] Spouse continues to collect on own workers benefit. Survivor benefit does not apply.

Source: U. S. Government Printing Office, Washington 1992, "How Well Do Women Fare Under the Nation's Retirement Policies?" Comm. Pub. No. 102-879, September 1992.

Average Annual Lifetime Earnings and 1992 Monthly Social Security Retirement Benefits[a]

	Cleavers	Bunkers	Keatons	Seavers
Earnings				
Husband	$24,000	$16,000	$12,000	$24,000
Wife	0	8,000	12,000	8,000
Family Total	24,000	24,000	24,000	32,000
Benefits				
Husband	$957 (WB)b	$712 (WB)	$591 (WB)	$957 (WB)
Wife	478 (SB)b	468 (WB)	591 (WB)	478 (WB)
Family Total	1,435	1,180	1,182	1,435
Survivor Benefits				
Amount	$957	$712	$591c	$957
As Percent of Couples Benefit	67%	60%	50%	67%

Footnotes:
[a] For workers retiring at age 65 in 1992.
[b] WB = Workers Benefit; SB = Spousal benefit.
[c] Spouse continues to collect on her own benefit. Survivor benefit does not apply.

Source: U. S. Government Printing Office, Washington 1992, "How Well Do Women Fare Under the Nation's Retirement Policies?" Comm. Pub. No. 102-879, September 1992.

Social Security Penalizes Working Women for Caregiving

Average Annual Earnings (over 35-year period)		$15,000
Monthly Benefits (under various examples)		
1.	Retires Age 65 (in 1993 with no "zero" years)	$608
2.	Retires Age 62 (in 1990 for elder care responsibilities with no "zero" years)	484
3.	Retires Age 65 (in 1993, spent 12 years outside paid workforce)	524
4.	Retires Age 62 (in 1990, spent 12 years outside paid workforce)	419

Source: U. S. Government Printing Office, Washington 1992, "How Well Do Women Fare Under the Nation's Retirement Policies?" Comm. Pub. No. 102-879, September 1992.

