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Before the Special Committee on Aging,  
U.S. Senate

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# RETIREMENT SECURITY

## Older Women Remain at Risk

Statement of Barbara D. Bovbjerg, Managing Director  
Education, Workforce, and Income Security



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Chairman Kohl, Ranking Member Corker, and Members of the Committee:

I am pleased to be here to discuss the challenges women face in attaining a secure retirement. Historically, elderly women have been at greater risk than men of living in poverty for several reasons. As our previous work has shown, women continue to have lower average earnings than men, despite their increasing participation in the labor force over the last half of the 20th century.<sup>1</sup> They are also more likely than men to take time out of the workforce to care for family members and tend to live longer. Moreover, recent economic trends, including the economic downturn, reductions in public sector pensions, and the ongoing shift from a defined benefit pension system to a defined contribution system could exacerbate the risks women face in attaining a secure retirement.

Over the past quarter-century, the percentage of private sector workers participating in employer-sponsored pension plans has held steady at about 50 percent. The majority of workers that do not participate in an employer plan lack access to one. In addition, over the last 3 decades, the U.S. retirement system has undergone a major transition from one based primarily on defined benefit plans to one based on defined contribution plans. This transition, in turn, generally shifted the burden of saving and decision-making to the individual worker and also increased workers' exposure to economic volatility. This transition also has implications for the financial security of spouses. For instance, under defined benefit plans, the qualified joint and survivor annuity required by law may only be waived through a written spousal consent. However, under most defined contribution plans, an employee may withdraw funds from his or her account without spousal consent.

Today's testimony examines women's retirement income security in light of these circumstances. It is based on a GAO report being released today.<sup>2</sup> In the report, we examined (1) how women's access to and participation in employer-sponsored retirement plans compare to men's and how they

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<sup>1</sup>GAO, *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement*, [GAO-08-105](#) (Washington, D.C.: Oct. 11, 2007) and GAO, *Gender Pay Differences: Progress Made, but Women Remain Overrepresented among Low-Wage Workers*, [GAO-12-10](#) (Washington, D.C.: Oct 12, 2011).

<sup>2</sup>GAO, *Retirement Security: Women Still Face Challenges*, [GAO-12-699](#) (Washington D.C.: July 19, 2012).

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have changed over time; (2) how women's retirement income compares to men's and how the composition of their income—the proportion of income coming from different sources—changed with economic conditions and trends in pension design; (3) how later-in-life events affect women's retirement income security; and (4) what policy options are available to help increase women's retirement income security.

To address these questions, we analyzed two nationally representative datasets, conducted an extensive literature review, and consulted with numerous experts. For our first two objectives, we analyzed data from the Survey of Income and Program Participation (SIPP), a nationally representative dataset.<sup>3</sup> For our third objective, we developed a statistical model to estimate the effects of events occurring later in life, such as a decline in health and widowhood, on income and assets using data from the Health and Retirement Study (HRS), a nationally representative dataset that tracks Americans age 51 years or older over time.<sup>4</sup> We assessed the reliability of selected SIPP and HRS data and found that, for the purposes of our analysis, the data that we analyzed were sufficiently reliable. Finally, to identify policy options that could increase retirement income security among women, we conducted an extensive literature review and interviewed a range of experts in the area of retirement income security.<sup>5</sup>

We conducted this performance audit from March 2011 through July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>3</sup>Specifically we used data from the 1996, 2001, 2004, and 2008 SIPP panel surveys, which are administered over a period of several years.

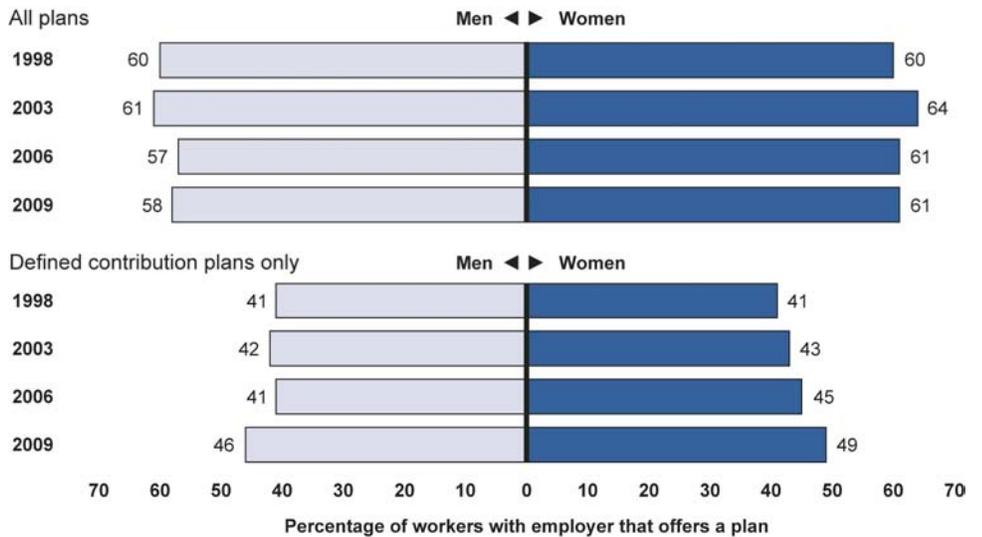
<sup>4</sup>We used all years of HRS data, including early release data for 2010. For more details on our methods, see [GAO-12-699](#).

<sup>5</sup>To ensure that we obtained a balanced perspective, we interviewed experts with a range of perspectives and from different types of organizations including government, academia, advocacy groups, and the private sector. See the full report for more details.

Mr. Chairman, the following summarizes our findings on each of the four issues discussed in our report:

Over the last decade, working women’s access to and participation in employer-sponsored retirement plans have improved relative to men.<sup>6</sup> In fact, from 1998 to 2009, women surpassed men in their likelihood of working for an employer that offered a pension plan—largely because the proportion of men covered by a plan declined (see fig. 1). Furthermore, as employers have continued to terminate their defined benefit plans and switch to defined contribution plans, the proportion of women who worked for employers that offered a defined contribution plan increased. Women’s higher rates of pension coverage may be due to the fact that they are more likely to work in the public and nonprofit sectors and industries that offer coverage, such as health and education.

**Figure 1: Proportion of Working Women and Men with Employers That Offered Any Type of Pension Plan and Defined Contribution Plans Specifically**



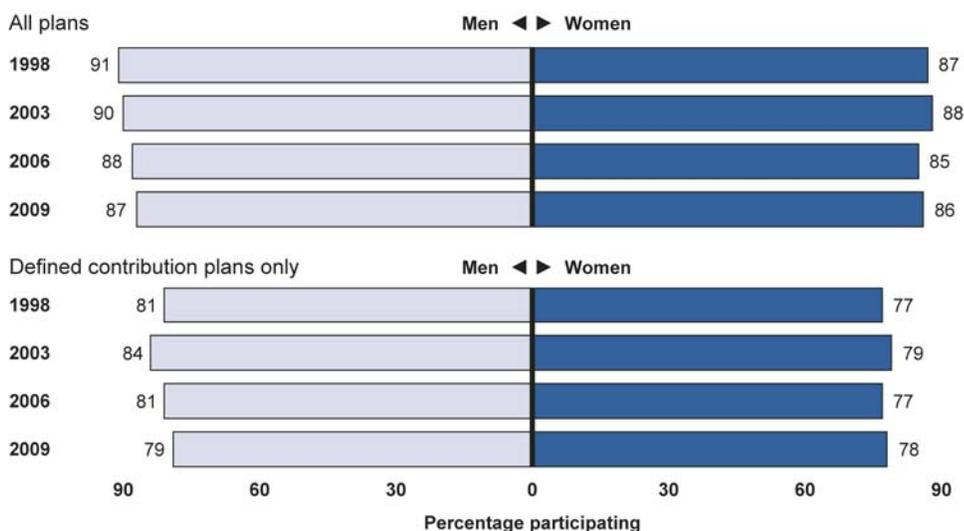
Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/- 1 percent of the estimate itself.

<sup>6</sup>The statistics we present on employer-plan coverage, eligibility, and participation; income levels and composition; and poverty rates are point estimates computed from the SIPP data.

Despite women's greater likelihood of having an employer that offered a pension plan, they were slightly less likely to be eligible for and to participate in those plans. Although women's eligibility rates generally increased over time, by 2009 there remained a 4 percentage point gap between men and women in terms of eligibility. Of those who were eligible to participate in their employer's pension plan, women had lower rates of participation than men. This gap, however, diminished over time as men's participation rates declined (see fig. 2). Women who were eligible to participate in a defined contribution plan were less likely to participate for a variety of reasons, including that they made less money, on average, were more likely to work part-time, and were more likely to be single parents. Finally, women who participated in a defined contribution plan contributed to their plans at lower levels than men.

**Figure 2: The Proportion of Eligible Women and Men That Participated in Any Type of Employer-Sponsored Pension Plan or in Defined Contribution Plans (among the Population That Was Eligible for a Plan)**



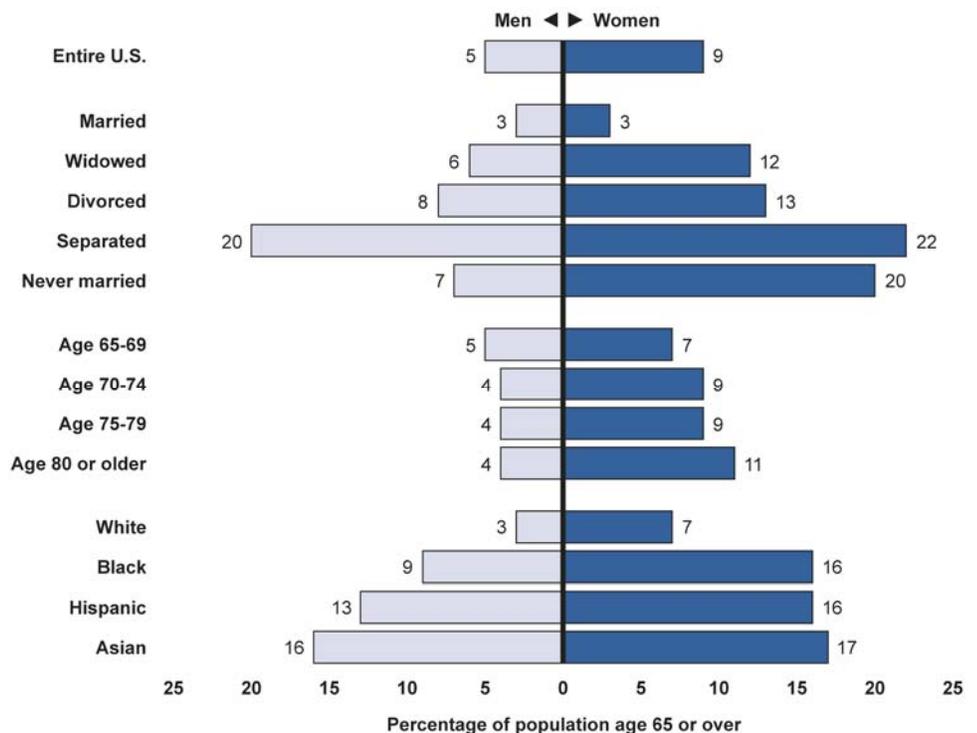
Source: GAO analysis of SIPP data.

Note: Percentage estimates in this figure have 95 percent confidence intervals that are within +/-2 percent of the estimate itself.

Women age 65 and over consistently had less retirement income on average and had higher rates of poverty when compared to men despite the fact that the composition of their income did not vary greatly over time. Specifically, the share of household income women received from earnings increased from 14 percent in 1998 to 16 percent in 2010, but was consistently lower than the share of household income men received from

earnings. Moreover, women’s median income was approximately 25 percent lower than men’s over the last decade, and the poverty rate for women in this age group was nearly two times higher than men’s in 2010. Income levels and poverty rates did, however, vary by demographic group. Groups with the lowest median incomes and highest poverty rates included women who were not married, over the age of 80, and non-White (see fig. 3). The composition of women’s income varied only slightly over time, in part, because their main sources of income—Social Security and defined benefit plans—were shielded from fluctuations in the market.

**Figure 3: Poverty Rates by Demographic Categories in 2010 for Women and Men Age 65 and Over**



Source: GAO analysis of SIPP data.

Note: Estimates for men and women include spousal income. Percentage estimates of poverty rates have 95 percent confidence intervals that are within +/-1 percent for the category for the entire U.S.; +/-1 percent for married, +/-2 percent for widowed, +/-3 percent for divorced, +/-12 percent for separated, and +/-6 percent for never married individuals; +/-2 percent for all age-categories; +/-1 percent for Whites, +/-4 percent for Blacks, +/-5 percent for Hispanics, and +/-8 percent for Asians.

Divorce, the death of a spouse, and unemployment all had detrimental effects on the total household assets and income for men and women nearing or in retirement (see table 1), and divorce and widowhood had more pronounced effects for women than for men.<sup>7</sup> For example, after a divorce or separation, women’s household income fell by 41 percent, on average, almost twice the size of the decline that men experienced. As a result of becoming widowed, women’s household income fell by 37 percent while men’s only fell by 22 percent. These effects may help explain why elderly women have lower average incomes than men and are more likely to live in poverty. We also found, not surprisingly, that a decline in health after age 50 had a negative effect on household assets and income, for both men and women.

**Table 1: Estimated Effects of Life Events on Household Assets and Income by Gender**

Percent change	Total household assets		Total household income	
	Women	Men	Women	Men
	Became divorced or separated	-41 <sup>a</sup>	-39 <sup>a</sup>	-41 <sup>a,b</sup>
Became widowed	-32 <sup>a,b</sup>	-27 <sup>a,b</sup>	-37 <sup>a,b</sup>	-22 <sup>a,b</sup>
Became unemployed	-7 <sup>a</sup>	-7 <sup>a</sup>	-9 <sup>a</sup>	-7 <sup>a</sup>
Health declined	-8 <sup>a</sup>	-10 <sup>a</sup>	-4 <sup>a</sup>	-3 <sup>a</sup>

Source: GAO analysis of HRS data.

Notes: We used statistical models to estimate the percent change in total household assets and income that occurs for an individual after a life event, relative to an individual that did not experience that life event. Total assets and income for the household were applied to each individual in the household. The estimated effects represent the average percent difference in household assets and income between all survey periods in which the household does experience an event and all survey periods in which the household does not experience an event. The event may have occurred in any year after the household entered the survey. Individuals in our sample were over age 50.

<sup>a</sup>Estimate is significantly different from zero.

<sup>b</sup>Difference between women and men is statistically significant.

<sup>7</sup>We estimated these effects using fixed-effects panel regressions with HRS data. Because this analysis pertains to individuals over the age of 50, these effects may not be generalizable to younger cohorts as women’s labor force participation and, correspondingly, their assets and income, have changed over the last several decades. Our report also examined the effects of helping parents financially or with personal activities, but did not find statistically significant negative relationships.

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Experts we interviewed identified 22 existing policy options that could address some of the challenges women face in attaining a secure retirement and help decrease the risk of elderly women living in poverty.<sup>8</sup> These policies can be categorized into six broad policy goals (see table 2). For example, one set of options would expand the use of existing tax incentives, such as the automatic IRA, to encourage women to save more for retirement during their working years. Another set of options would help ensure income adequacy in retirement by, for example, providing an additional Social Security benefit to beneficiaries over the age of 80 or 85. All of these options could benefit men as well. At the same time, however, all of the options have cost implications that would need to be considered before they are implemented. For example, as with any federal spending program, any option that results in reduced or deferred federal tax revenue may require an offset, such as raising revenue elsewhere or cutting spending. While the federal government could bear some of these costs, workers and plan sponsors could be responsible for others. Lastly, some options may require legislative changes.

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**Table 2: Policy Goals for Enhancing Women’s Retirement Income Security**

Expand the use of existing tax Incentives to save for retirement
Expand eligibility and opportunities to accumulate Social Security credits
Expand access to retirement savings and strengthen spousal protections
Expand opportunities for saving later in life and delay Social Security benefit receipt
Ensure lifetime income
Ensure income adequacy

Source: GAO analysis of literature and expert interviews.

In conclusion, retirement security continues to be a national dilemma for both women and men. Recent economic volatility, coupled with the continued shift toward defined contribution plans, exposes all workers to more financial risk than in previous generations. Our work highlights, however, that women face a unique set of circumstances that warrant special attention. Women may have a more difficult time saving for retirement and avoiding poverty late in life, partly due to the fact that they have a greater likelihood of being single, living longer, taking time out of the workforce to care for family members, and having lower average

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<sup>8</sup>For a detailed list of policy options, see the full report, [GAO-12-699](#).

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earnings when they are in the workforce. Further, our findings show that for recent generations of older women, late-in-life events, such as widowhood and divorce, can have devastating effects on women's income and asset levels. According to the experts we consulted, many options exist for addressing the challenges women face, ranging from changes to Social Security to altering the pension system. While each option would require trade-offs and difficult choices, they could benefit both women and men and ultimately provide opportunities to improve the retirement security of many Americans.

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Chairman Kohl, Ranking Member Corker, and Members of the Committee, this concludes my prepared statement. I would be happy to answer any questions you or other members of the committee may have at this time.

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# Appendix I: GAO Contact and Staff Acknowledgments

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## GAO Contact

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## Staff Acknowledgments

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