Building Economic Security in Retirement for WOMEN

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December 9, 2004
GAO’s Role: Addressing Current and Emerging Challenges

- GAO’s Strategic Plan
- Selected Fiscal Exposures and Trends
- 21st Century Questions
GAO’s Strategic Plan

Serving the Congress and the Nation
GAO’s Strategic Plan Framework

Mission
GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

Goals & Objectives

Provide Timely, Quality Service to the Congress and the Federal Government to...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People related to...

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Visible communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence involving...

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government’s Role and How It Does Business to Meet 21st Century Challenges by assessing...

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization in the areas of...

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

Core Values

Accountability
Integrity
Reliability

Source: GAO.
Implications of Demographic Challenges

- Fiscal challenges
- Potential adverse effects on real economic growth
- Potential adverse effects on overall living standards
Composition of Federal Spending

For 1964:
- Defense: 33%
- Social Security: 46%
- Net interest: 7%
- All other spending: 14%

For 1984:
- Defense: 30%
- Social Security: 27%
- Net interest: 13%
- All other spending: 21%

For 2004:
- Defense: 33%
- Social Security: 20%
- Net interest: 20%
- All other spending: 21%

*Current services estimate.
Note: Numbers may not add to 100 percent due to rounding.
Composition of Spending as a Share of GDP
Under Baseline Extended

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary effects due to passage of the Working Families Tax Relief Act of 2004 are not reflected in this simulation.

Source: GAO’s September 2004 analysis.
Composition of Spending as a Share of GDP
Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions are Extended

Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.
Source: GAO's September 2004 analysis.
Social Security and Medicare’s Hospital Insurance Trust Funds Face Cash Deficits

Social Security, Medicare, and Medicaid Spending as a Percent of GDP


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.
Key Elements for Economic Security in Retirement

• Adequate retirement income
  – Social Security
  – Pensions
  – Savings
  – Earnings from continued employment (e.g., part-time)

• Affordable health care
  – Medicare
  – Retiree health care

• Long-term care (a hybrid)
Selected 21st Century Questions

- How should Social Security be reformed to make it both solvent and sustainable while better aligning it with 21st Century economic, demographic and fiscal realities?
- What changes should be made to existing pension laws in order to enhance the retirement income security of workers and help assure the financial integrity of the Pension Benefit Guaranty Corporation?
- How should federal programs and policies be revised to encourage people to work longer and to facilitate phased retirement approaches?
Selected 21st Century Questions

- How should our overall health care system be reformed to make it more successful and sustainable over time (e.g., focusing on certain defined needs versus unlimited wants; addressing the division of responsibilities between levels of government, employers, and individuals; and facilitating individual choice, cost control and quality improvement?)

- Which tax incentives and preferences need to be reconsidered given their costs and effects, failure to achieve goals intended by Congress, or their unintended consequences? For example, can adequate health care coverage be achieved at less cost and greater distributional equity through a fundamental redesign of the current health tax preferences, or through their elimination and the use of other means to provide for coverage?
Economic Security in Retirement

Key Dimensions

- **Major Elements**
  - Income
  - Health
  - Long-term Care

- **Major Players**
  - Individuals
  - Employers
  - Government
  - Family
  - Community
Demographic Changes Will Present Challenges for Retirement Security of Men and Women

- Increasing life expectancy
- Increasing elderly dependency ratio
- Declining labor force growth
Differences in Life Expectancy of Women and Men in the United States, 2001

U.S. Elderly Dependency Ratio Expected to Continue to Increase

Elderly Dependency Ratio (in percent)

U.S. Labor Force Growth Will Continue to Decline

Percentage change (5-yr moving average)

Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2004 Trustees Reports.

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.
The Gap in Men’s and Women’s Labor Force Participation Rates has Narrowed

Civilian Labor Force Participation Rate for Men and Women Aged 25 Years and Older, 1950-2004

Note: annual average for 2004 is based on data from January 2004-October 2004 (seasonally adjusted)
Participation Rates in Employment-Based Retirement Plans Are Converging for Men and Women, but Only about Half Have Coverage

Percentage of Wage and Salary Workers Ages 21-64 who Participated in an Employment-Based Retirement Plan, by Gender, 1987-2003

On Average Women Have Lower Earnings than Men, which Affects Retirement Income

Average Total Wage and Salary Earnings for Men and Women Aged 25-65 in 2003

Men: $49,885
Women: $31,854

Source: GAO analysis of the 2004 March Supplement CPS

Notes: From 1983 to 2000, on average, women earned about 44% less than men. After controlling for key factors that affect earnings, such as labor force attachment and education, GAO found that the earnings differential between men and women was still about 21% over this time period.
Women Are Slightly More Likely than Men to Receive Income from Social Security, but Are Less Likely to Have Income from Other Sources

Percentage of Women and Men Aged 65 and Older With Income from Specified Source

- **Earnings**: Men 23%, Women 12%
- **Social Security**: Men 89%, Women 90%
- **Other Public Pensions**: Men 13%, Women 11%
- **Private Pensions Annuities**: Men 31%, Women 18%
- **Income from Assets**: Men 62%, Women 58%

Considerable Disparity Exists in DC Pension Wealth for Men and Women

Median Balance in 401(k)-type Plans, by Gender (in 2001 dollars)

Social Security Reform Elements

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects, including consideration of both funded and promised benefit levels.

Comprehensive proposals can be evaluated against three basic criteria:

- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms
Pension System Faces Variety of Challenges

- Significant coverage gaps and pre-retirement leakage
- Long term decline in the number of DB plans and active participants and change in the nature of DB plans
- Recent and prospective large plan terminations by bankrupt sponsors have placed Pension Benefit Guaranty Corporation (PBGC), the federal agency insuring benefits, in financial jeopardy
  - Stock market, interest rate declines this decade have worsened overall plan funding
  - Demographics, global competition (Steel, auto) industry deregulation restructuring (airlines) have contributed to both plan and corporate weakness
- Plan funding rules have proven to be inadequate
- Certain PBGC premium insurance issues need to be reviewed
- Selected other issues also require attention (e.g., lump sums, bankruptcy laws)

Billions of Dollars

[Graph showing underfunding by year from 1980 to 2003]
Several Reforms Might Improve Plan Funding and Reduce the Risks to PBGC’s Long-term Viability

- Increase transparency of plan information
- Strengthen funding rules applicable to poorly funded plans
- Limit lump sums in underfunded plans
- Modify program guarantees (e.g., phase-in rules)
- Modify pension premiums (e.g., nature of risk related premiums)
- Eliminate floor/offset arrangements with significant investment concentrations in employer securities
- Modify bankruptcy laws?
DB System Weaknesses Have Serious Implications for National Retirement Policy

• **Current Issue:**
  – Protect the benefits of workers affected by terminated plans
  – Address PBGC financial exposure
  – Improve funding of DB plans generally

• **Broader Issue: what is role of DB plans in ensuring retirement security?**
  – Revitalized DB system vs smoother transition to all DC world
  – Impact of Social Security reform on the private DB and DC system and personal savings arrangements
Health Care System
Key Questions

• What is the difference between health care wants, needs, affordability and sustainability?

• What is an appropriate division of responsibility between individuals, government, employers, family and others?
Health Care System Reform Elements
Incentives, Transparency, and Accountability

- Align **incentives** for providers and consumers to make prudent choices about health insurance coverages and prudent decisions about the use of medical services,

- Foster **transparency** with respect to the value and costs of care, and

- Ensure **accountability** from health plans and providers to meet standards for appropriate use and quality.
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