

United States Government Accountability Office



RETIREMENT • PENSION • HEALTH CARE
INSECURITY

21ST Century CHALLENGES KEY AREAS FOR OVERSIGHT

The Honorable David M. Walker
Comptroller General of the United States
Women's Institute for a Secure Retirement

Washington, D.C.
December 7, 2006



Estimated Fiscal Exposures (\$ trillions)

	2000	2006
• Explicit liabilities	\$6.9	\$10.2
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 		
• Commitments & contingencies	0.5	0.9
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 		
• Implicit exposures	13.0	38.8
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	6.4
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	11.3
<ul style="list-style-type: none"> • Future Medicare Part B benefits 	6.5	13.1
<ul style="list-style-type: none"> • Future Medicare Part D benefits 	--	8.0
Total	\$20.4	\$49.9

Source: U.S. government's consolidated financial statement, Social Security and Medicare Trustees reports and Monthly Treasury Statement, September 30, 2006.

Note: 2006 estimates are preliminary. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

How Big is Our Growing Fiscal Burden?

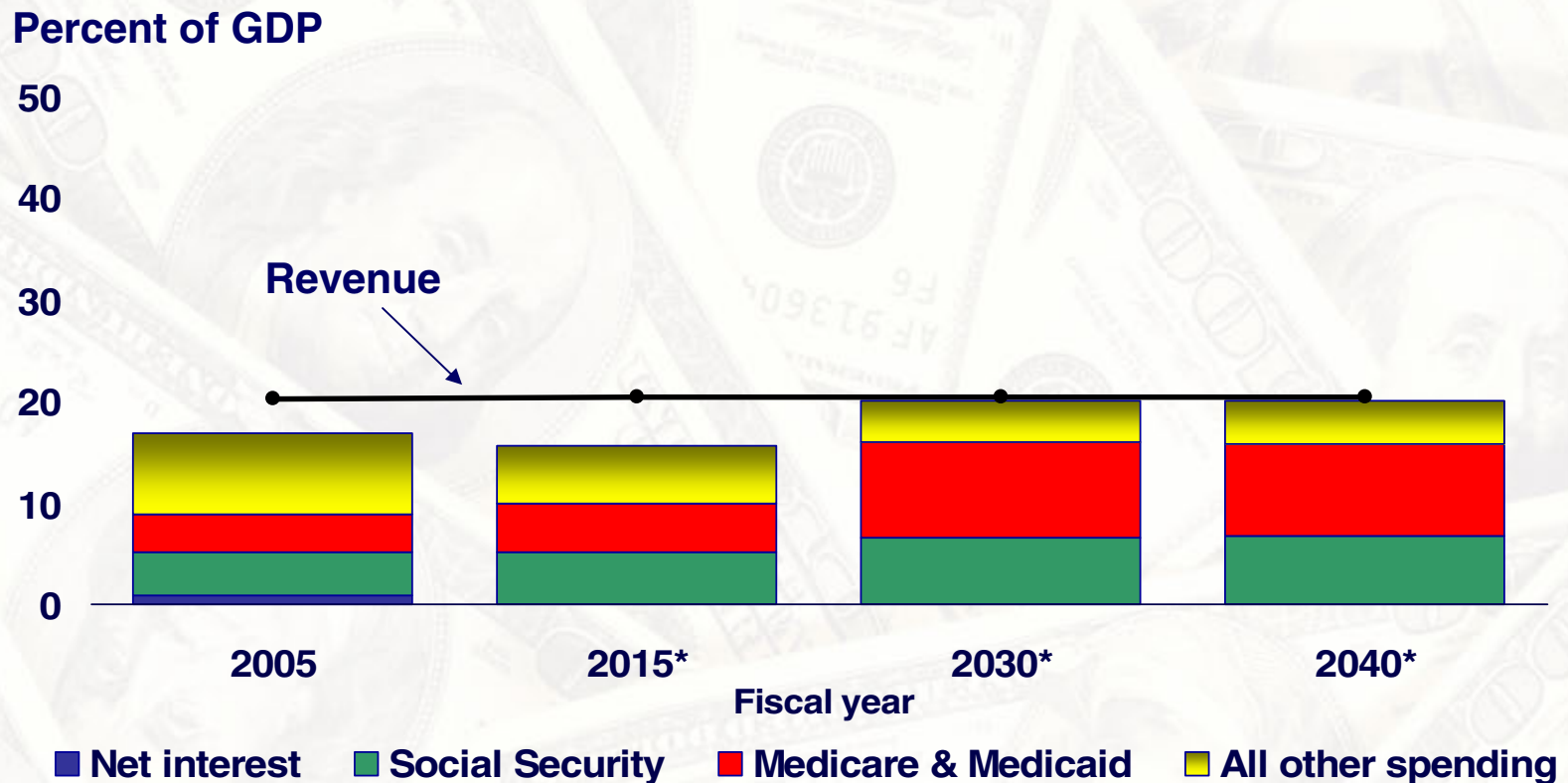
Our total fiscal burden can be translated and compared as follows:

Total fiscal exposures	\$49.9 trillion
Total household net worth¹	\$53.3 trillion
Burden/Net worth ratio	94 percent
Burden²	
Per person	\$165,000
Per full-time worker	\$395,000
Per household	\$435,000
Income	
Median household income³	\$46,326
Disposable personal income per capita⁴	\$32,392

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Aug. 2006); (3) U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2005* (Aug. 2006); and (4) Bureau of Economic Analysis, *Personal Income and Outlays: September 2006*, table 2, 2006:Q3, (Oct. 30, 2006).

Sources: GAO analysis.

Composition of Spending as a Share of GDP Under Baseline Extended (January 2001)

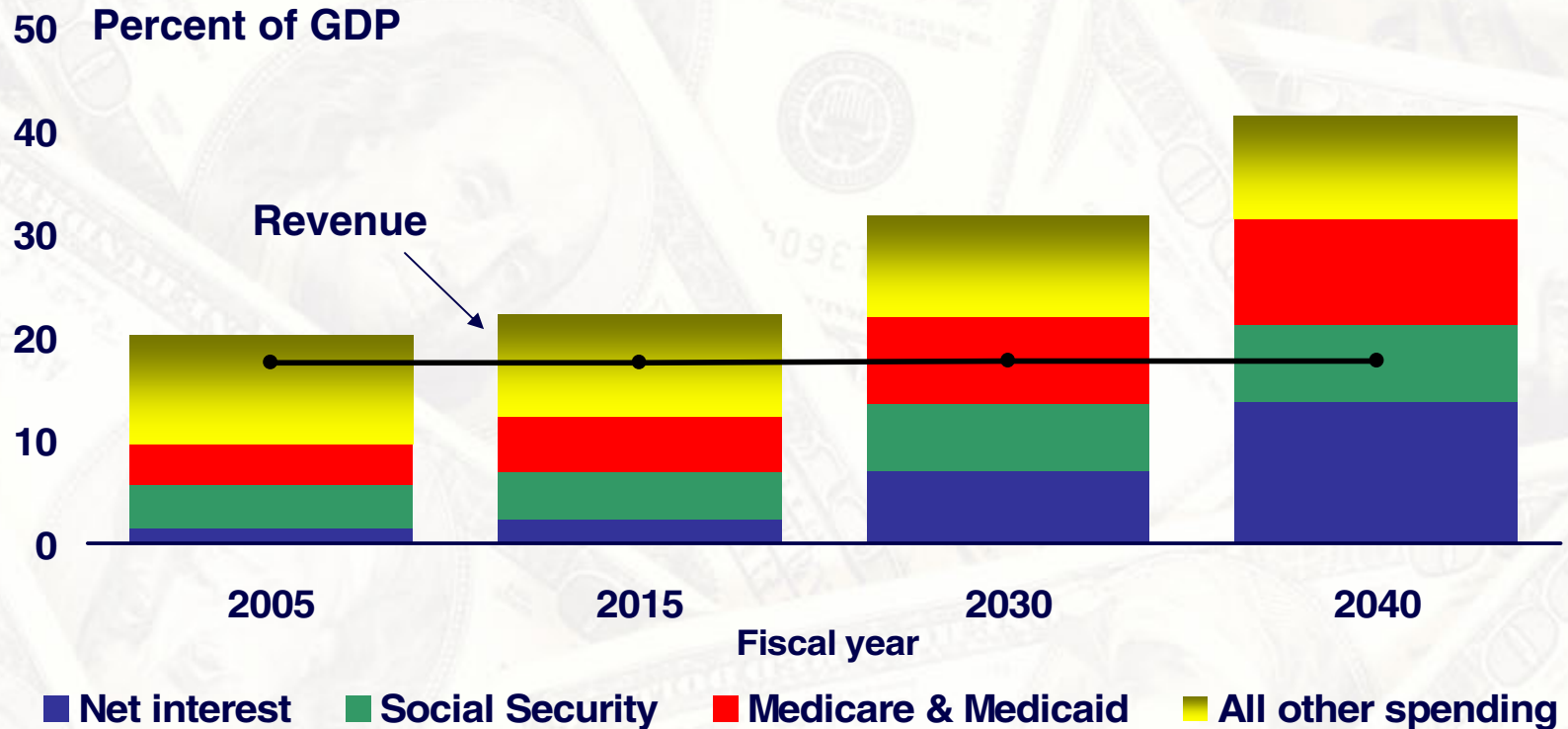


*All other spending is net of offsetting interest receipts.

Source: GAO's January 2001 analysis.

Composition of Spending as a Share of GDP

(Assuming Discretionary Spending Grows with GDP
After 2006 and All Expiring Tax Provisions are Extended)



Source: GAO's August 2006 analysis.

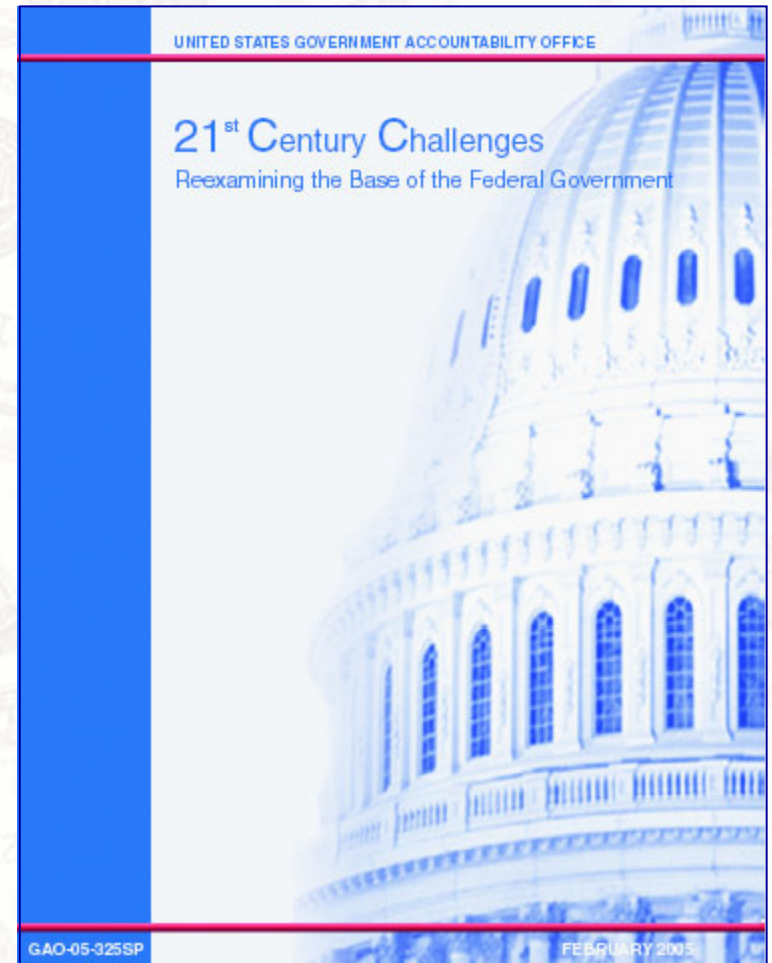
The Way Forward: A Three-Pronged Approach

1. Improve Financial Reporting, Public Education, and Performance Metrics
2. Strengthen Budget and Legislative Processes and Controls
3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)

*Solutions Require Active Involvement from
both the Executive and Legislative Branches*

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- **Health Care**
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- **Retirement & Disability**
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Key Elements for Economic Security in Retirement

- **Adequate retirement income**
 - Savings
 - Social Security
 - Pensions
 - Earnings from continued employment (e.g., part-time)
- **Affordable health care**
 - Medicare
 - Retiree health care
- **Long-term care (a hybrid)**
- **Major Players**
 - Employers
 - Government
 - Individuals
 - Family
 - Community

GAO Criteria for Evaluating Social Security Reform Proposals

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects.

Comprehensive proposals can be evaluated against three basic criteria:

- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms

Social Security Represents an Important Source of Income for Women

- 88 percent of retirement-age women receive Social Security
- Most women receive benefits at least in part based on their spouse's record. About 38 percent of women receive benefits solely on their own work record
- Social Security represents an average of 53 percent of total income for unmarried women over 65, versus 38 percent of total income for unmarried men and 33 percent of total income for married couples of the same age

Source: Social Security Administration

Some Social Security Proposals are Targeted to Protect or Enhance Benefits for Women

- **Changes to spousal benefits**--including earnings sharing between spouses, reduction in spousal benefits/increase to survivor's benefits, and reduction of the 10-year marriage requirement for divorced spouses
- **Changes in benefit computation**--including dependent care credits, and shortening the computation period used to calculate retirement benefits
- **Establish minimum benefit**--indexed to poverty level or percentage of poverty level

Other Social Security Reform Proposals May Weaken Benefits for Women

- **Changes in benefit computation**--would extend the benefit computation period from 35 to 38 or more years, which would lower average benefits for most workers, especially those with fewer years of work history
- **Individual accounts**
 - New risks include investment risk, longevity risks, and lack of spousal protections
 - Possible benefits include potential higher returns, and inheritability/ownership
 - Women's tendency to invest more conservatively than men can have both positive and negative effects on income in retirement

Pension Protection Act of 2006: An Important Reform with Unfinished Business

- **PPA shrinks, but does not close, many loopholes regarding DB plan funding**
- **PBGC deficit expected to continue to grow over the long term**
- **Ultimately does not address fundamental mismatch between DB plan assets and liabilities**
- **Will likely not reverse long-term decline in DB system**
- **Financing of adequate retirement for all Americans continues to pose a major national challenge**
 - Issues of coverage and plan design remain largely unanswered
 - Appropriate balance of responsibility for retirement among employers, government and workers remains unclear
- **Did not fully resolve issues raised by floor/offset arrangements with significant investment concentrations in employer securities**

Pension Income for Women

- Roughly half of all workers have access to retirement programs through their employer
- Currently retired women are less likely than retired men to have a significant portion of their income from non-Social Security pensions
 - In 2003, 29 percent of women and 45 percent of men age 65 and older had pension income
- In 2004, 54 percent of full-time working women participated in employer-sponsored pensions, versus 53 percent of men; however, women average lower benefits due to lower average earnings and years of work

Women are Less Likely Than Men to Have Pension Coverage

- Women are less often in the paid labor force
- More often ineligible to participate (part-time work)
- More frequently fail to meet vesting requirements (intermittent labor force participation) when employed by firms sponsoring pensions
- More often employed in industries with below average rates of pension plan sponsorship, such as service or retail vs. manufacturing industries
- However, women may receive spousal or survivor benefits through their husbands' pensions

Women's Pension Coverage is Improving, but a Significant Gap Remains

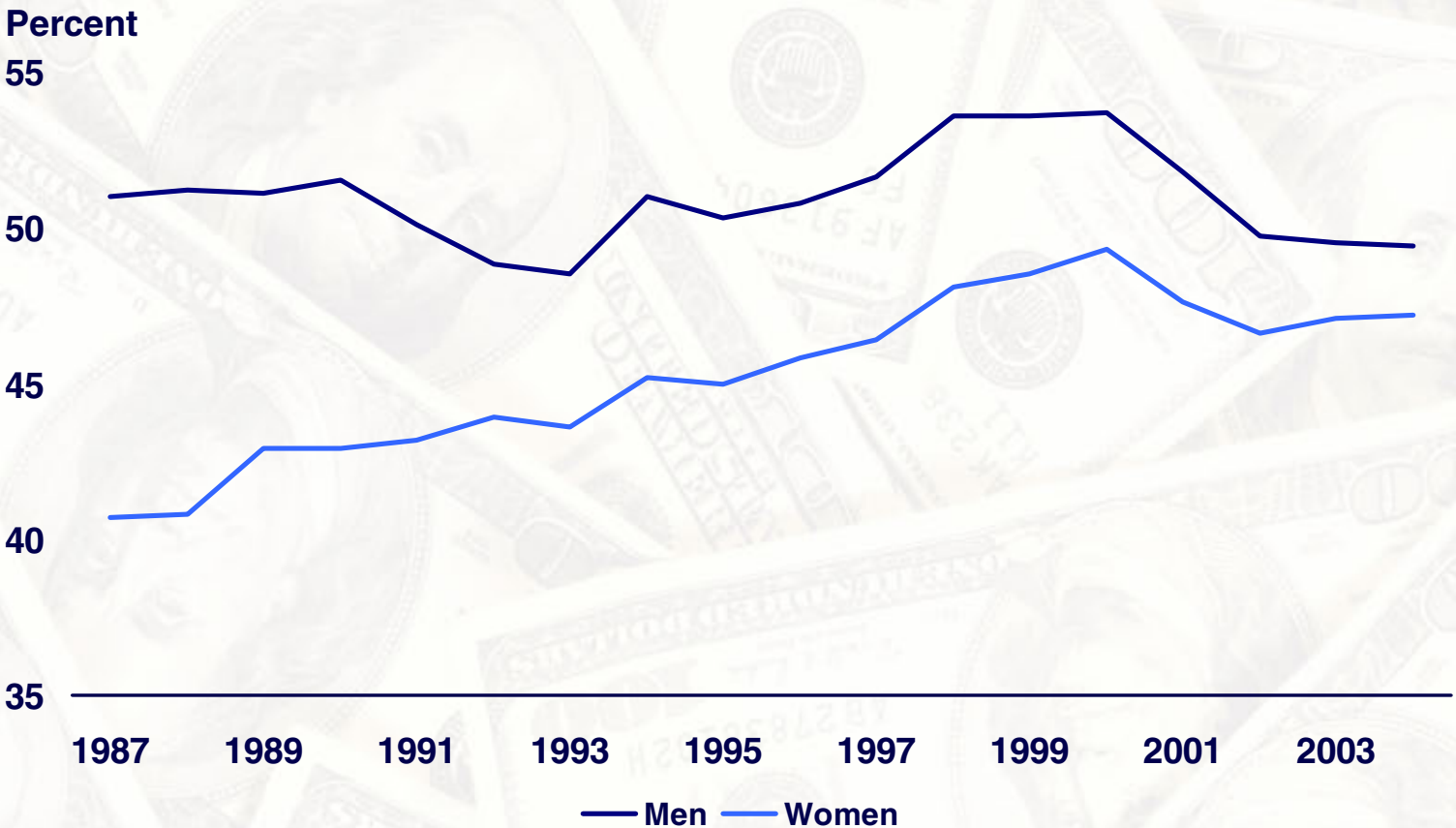
A 2003 study predicted that while women's income from private pensions should rise sharply relative to men's over the next 20 years, a substantial gap will remain

- Even if experience and salary gaps are eliminated, women accumulate less pension wealth than men
- Low-income women are particularly vulnerable

Source: Even, W.E., & Macpherson, D.A. (2003). *When Will the Gender Gap in Retirement Income Narrow?*

Participation Rates in Employment-based Retirement Plans

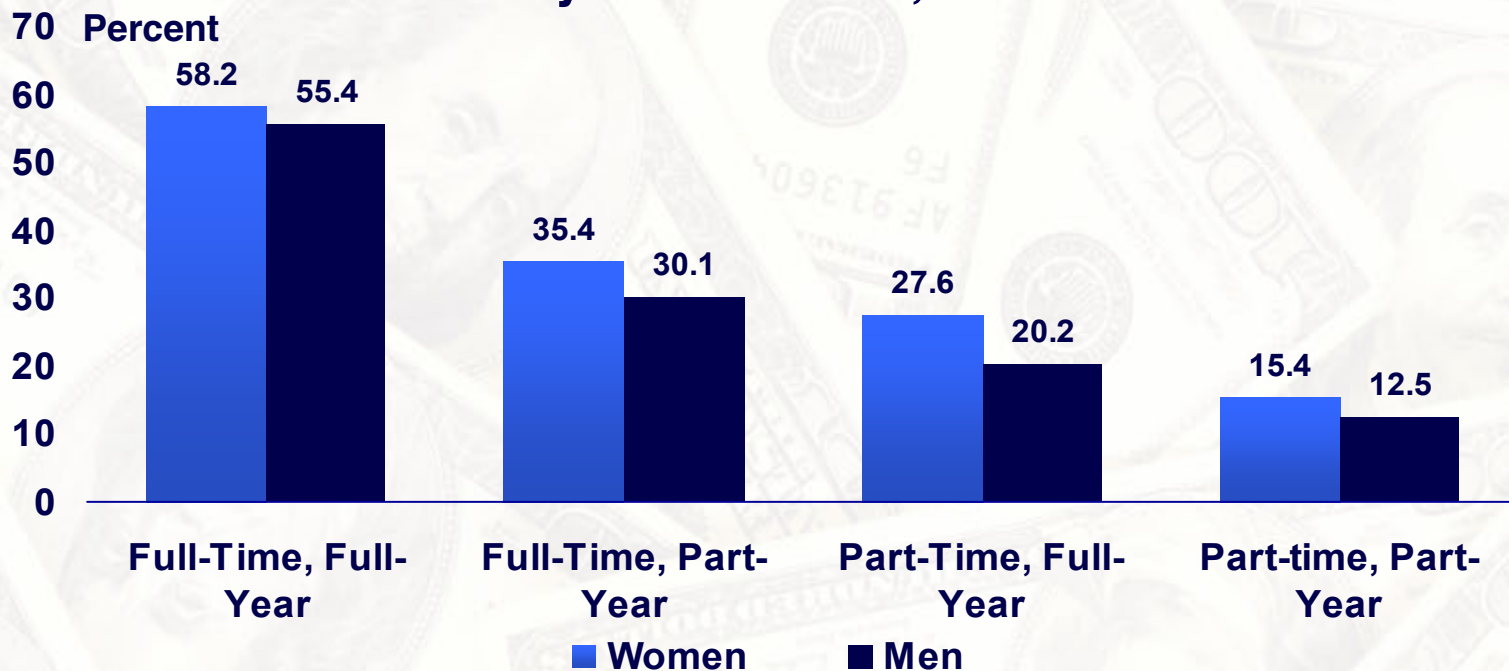
Percent of Wage and Salary Workers Ages 21-64 Who Participated in an Employment-based Retirement Plan, 1987-2004



Source: Employment Benefit Research Institute, Issue Brief 286, October 2005.

Across All Worker Status Categories, Women Are More Likely to Participate in Retirement Plans

Percentage of Wage and Salary Workers Ages 21-64 Who Participated in an Employment-Based Retirement Plan, By Work Status, 2004



Note: While the previous slide showed that female wage and salary workers ages 21-64 were found—in the aggregate—to participate in a retirement plan at a lower level than males did, this is mainly due to female workers' overall lower earnings and/or lower rates of full-time work in comparison with males. As this slide illustrates, however, across all worker status categories, females were more likely to participate in a retirement plan than males.

Source: Employee Benefit Research Institute estimates from 2005 March Current Population Survey

Implications of the Shift From Defined Benefit to Defined Contribution Pension Plans

- DB plans typically have special protections for spouses; DC plans typically do not
- DB plans typically offer an annuity which provides a guaranteed life income; DC plans typically do not offer an annuity benefit
- With DCs investment risk and decision-making generally lie with the employee
- Women are less likely to preserve a lump-sum pre-retirement distribution in a tax-qualified savings vehicle prior to retirement

However,

- DCs are portable and generally better for workers who move in and out of the workforce
- Maximum allowable vesting requirements are shorter in DC plans

Defined Contribution Plan Proposals: Spousal Consent

- The Retirement Equity Act of 1984 required spousal consent to waive joint and survivor protections in defined benefit pensions
 - In the following 10 years, the number of married men selecting joint and survivor annuities increased 18 percent
- Some advocate extending spousal consent to defined contribution retirement distributions

Annuities Offer Some of the Same Protections as Social Security and DB Payments

- Annuities are a reliable method for ensuring a life-time income stream
- While Social Security is gender neutral in its benefit payments, women pay higher rates than men in the individually purchased private annuity market, based on their longer expected lifetimes
- While Social Security benefits are adjusted for cost of living, few privately purchased annuities have this adjustment

Increased Responsibility and Risk for Employee in Defined Contribution Plans

- Employees with DC pension plans must both elect to participate and select their investment choices
- Employees bear the risk of market fluctuation, inflation, and proper selection/diversification of investments
- Advocates favor automatic enrollment, which has been shown to increase participation, especially for lower earners, and automatic escalation of contribution amounts, which would further increase contribution rates

Retirement Savings “Leakage” is Another Risk of Defined Contribution Plans

- Only half the population preserves lump-sum pre-retirement distributions
- Of their most recent lump-sum pre-retirement distribution, 40 percent of women reported rolling their entire balance into a tax-qualified savings vehicle, versus 47 percent of men in 2003
- 44 percent of women reported rolling over some of those distributions into another tax-qualified savings vehicle, versus 50 percent of men in 2003

Source: Employee Benefit Research Institute, Issue Brief 289, January 2006

Aspects of Defined Contribution Pension Plans That May Enhance Women's Retirement Income

Portability

- Typically, accumulated assets can be rolled over and move with the employee as they change jobs and the plan design does not penalize employees who have multiple employers

Vesting

- Defined contribution: Since 2001, DC plans have been required to fully vest either after three years of service, or at the rate of 20 percent per year, starting in the second year
- Defined benefit: Vesting requirements cannot exceed 7 years

Issues to Consider in Examining Health Care Cost, Access, and Quality Challenges

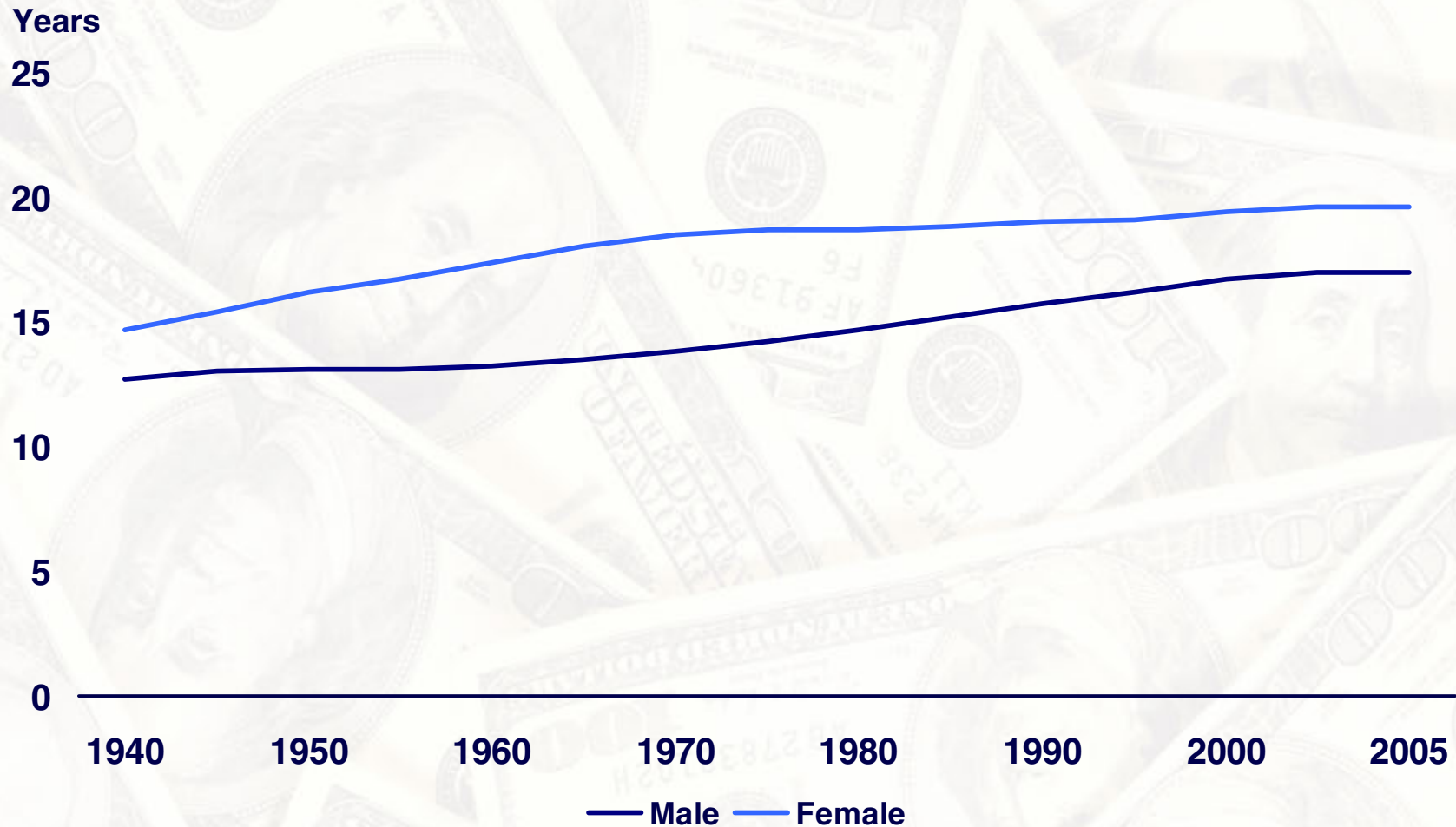
- **In reforming our health care system, the public needs to be educated about the differences between wants, needs, affordability, and sustainability at both the individual and aggregate level.**
- **Ideally, health care reform proposals will:**
 - Align incentives for providers and consumers to make prudent choices about health insurance coverage 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.

Issues to Consider In Examining Women and Retirement

- **Life expectancy by gender varies**
- **Labor force participation rates by age and gender vary**
- **Retirement income and pension coverage vary by gender**
- **Working longer may ease the challenges of an aging population**

Women Live Longer Than Men But The Gap is Closing

Life Expectancy at Age 65, 1940-2005



Source: Social Security Trustees Report, 2006

Numeric Growth in Labor Force by Women and Men, Projected 2004-2014

Numbers in Thousands

8,000

7,485

6,500

7,214

5,000

Women

Men

Source: Bureau of Labor Statistics

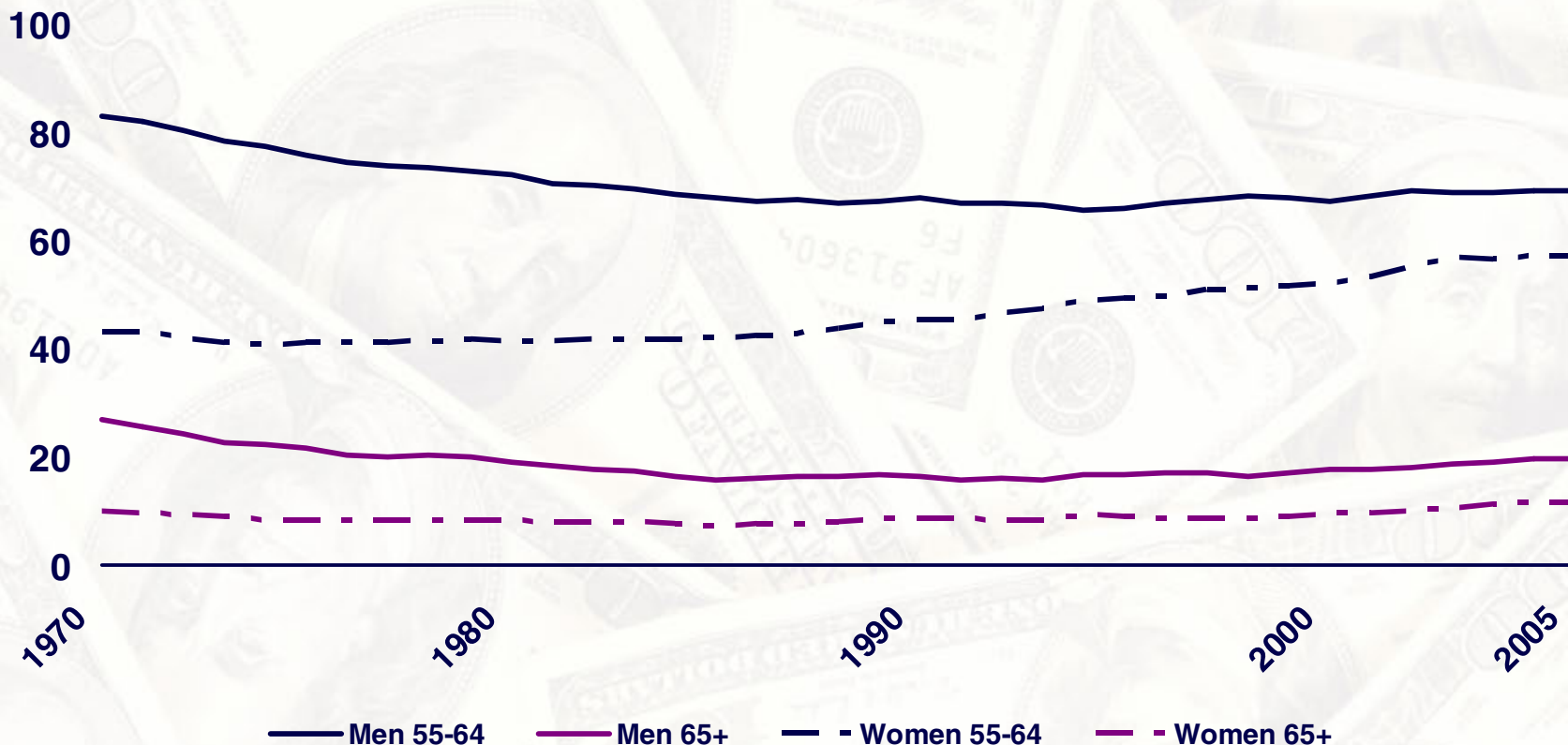
Women Have Weaker Labor Force Attachment Than Men on Average

Compared to men, on average:

- Women work fewer hours per year
- Women are less likely to work a full-time schedule
- Women often bear the burden of caring for younger and older generations (e.g., their children and their parents)
- Women leave the labor force for longer periods of time than men

Decline in Labor Force Participation by Older Americans Has Levelled Off

Labor force participation rate



Source: United States Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, <http://www.bls.gov/data/home.htm>.

Why Older Americans Don't Work Longer

Cultural Expectation to Retire in Mid-60s

- Social Security early retirement age is 62
- Many private pensions have similar or lower eligibility ages

Older Americans Perceive Few Opportunities

- Few older workers felt they had opportunities for partial retirement
- Most older workers and retirees saw low wage, low skilled jobs as their primary employment opportunities

Most Employers Do Not Make a Special Effort to Hire and Retain Older Workers

- Many employers say they are willing to implement policies to recruit and retain older workers, but few have actually done so
- Employers cite barriers, such as federal pension regulations, to flexible employment options for older workers

Working Longer May Help Address the Challenges of an Aging Population

Impact on the Economy

- Larger labor force
- Additional economic growth

Impact on the Federal Budget

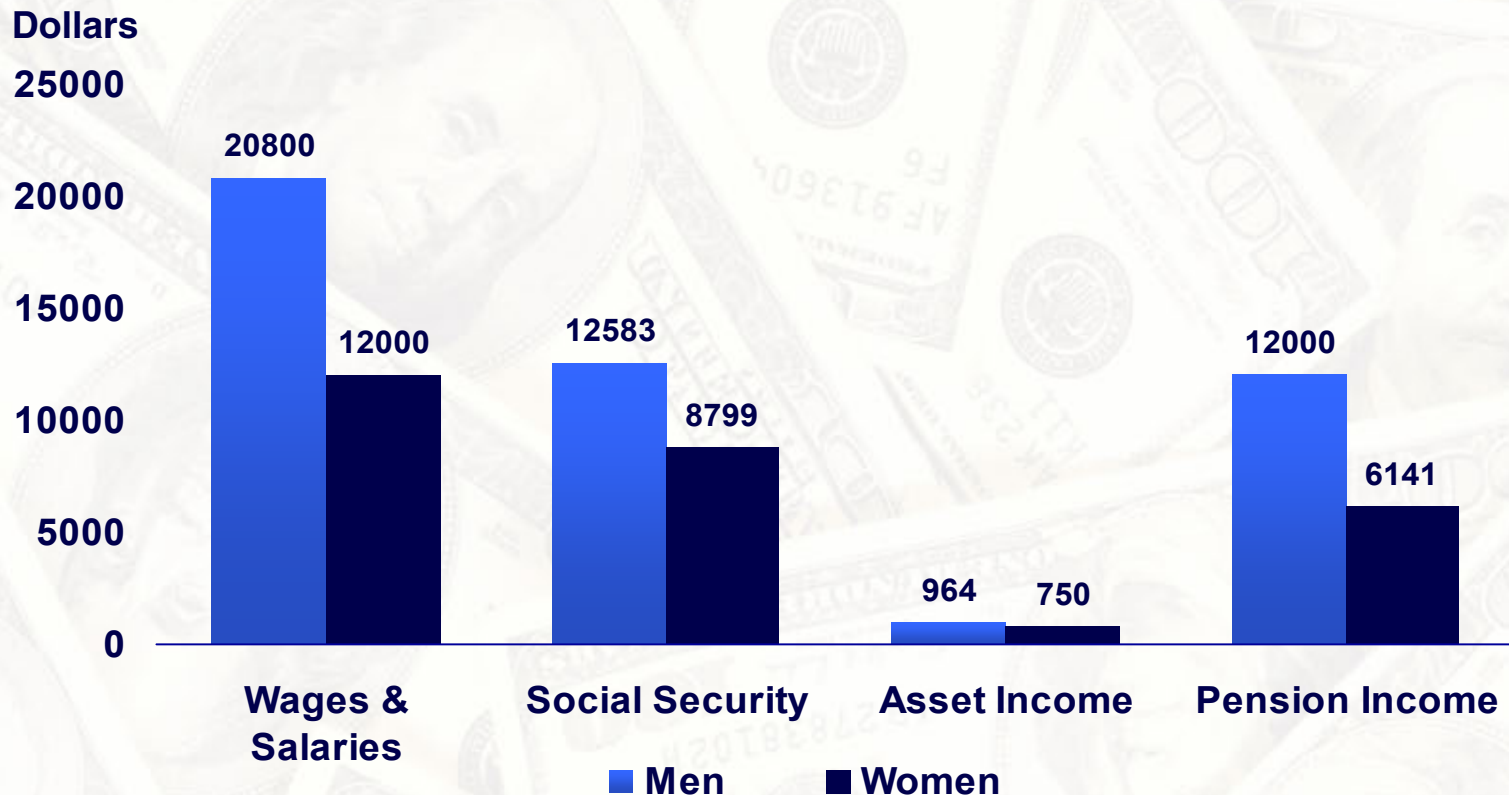
- Additional tax revenue
- Reduced expenditures: Social Security & Medicare

Impact on Individuals

- Enhanced retirement security and quality of life

Median Amounts of Retirement Income are Smaller for Women Than Men

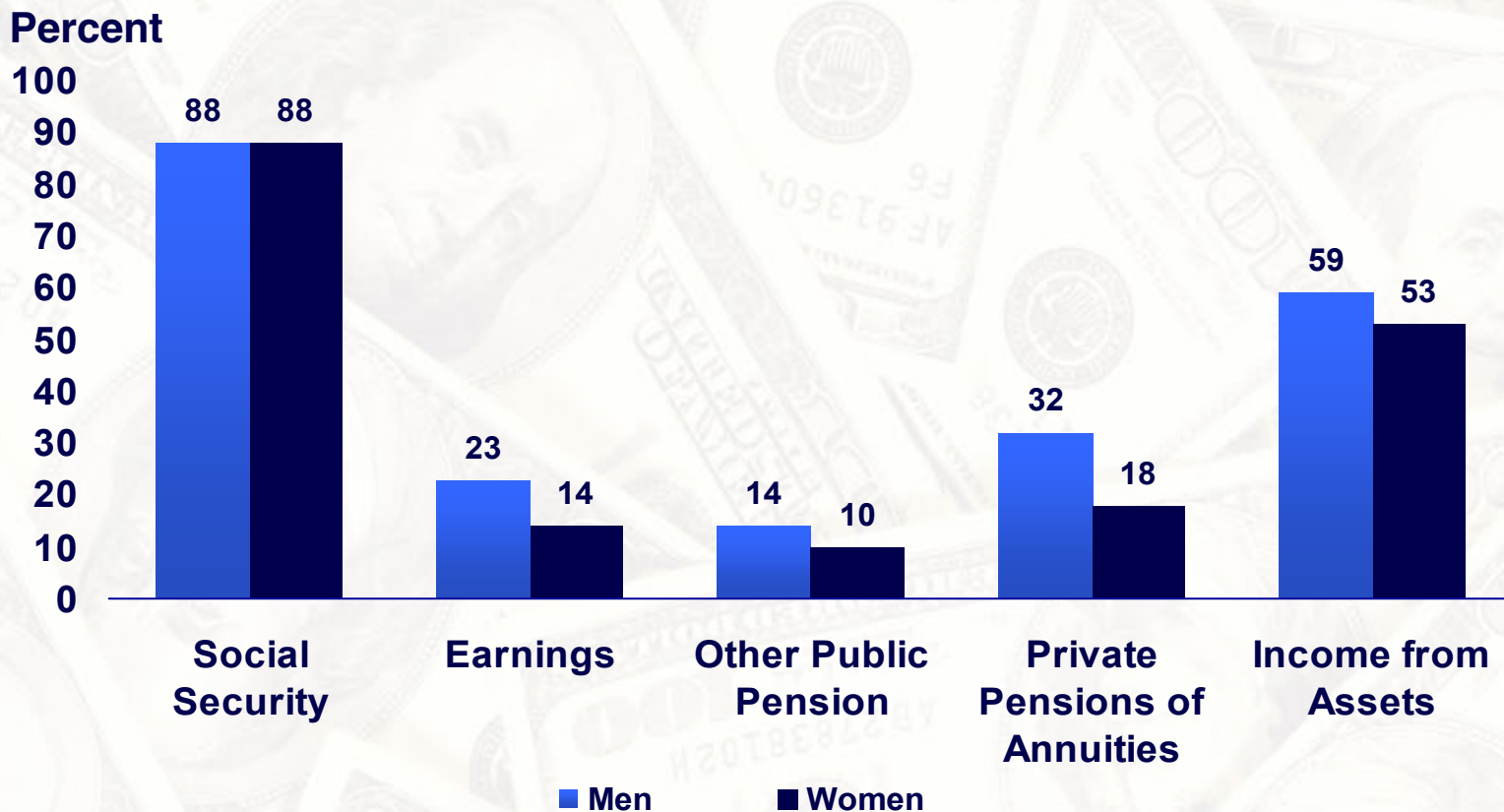
Median Value of Retirement Income from Specified Source of Men and Women 65 and Older, 2004



Source: Congressional Research Service

Women Are As Likely As Men to Receive Social Security Benefits, but Are Less Likely to Have Income from Other Sources

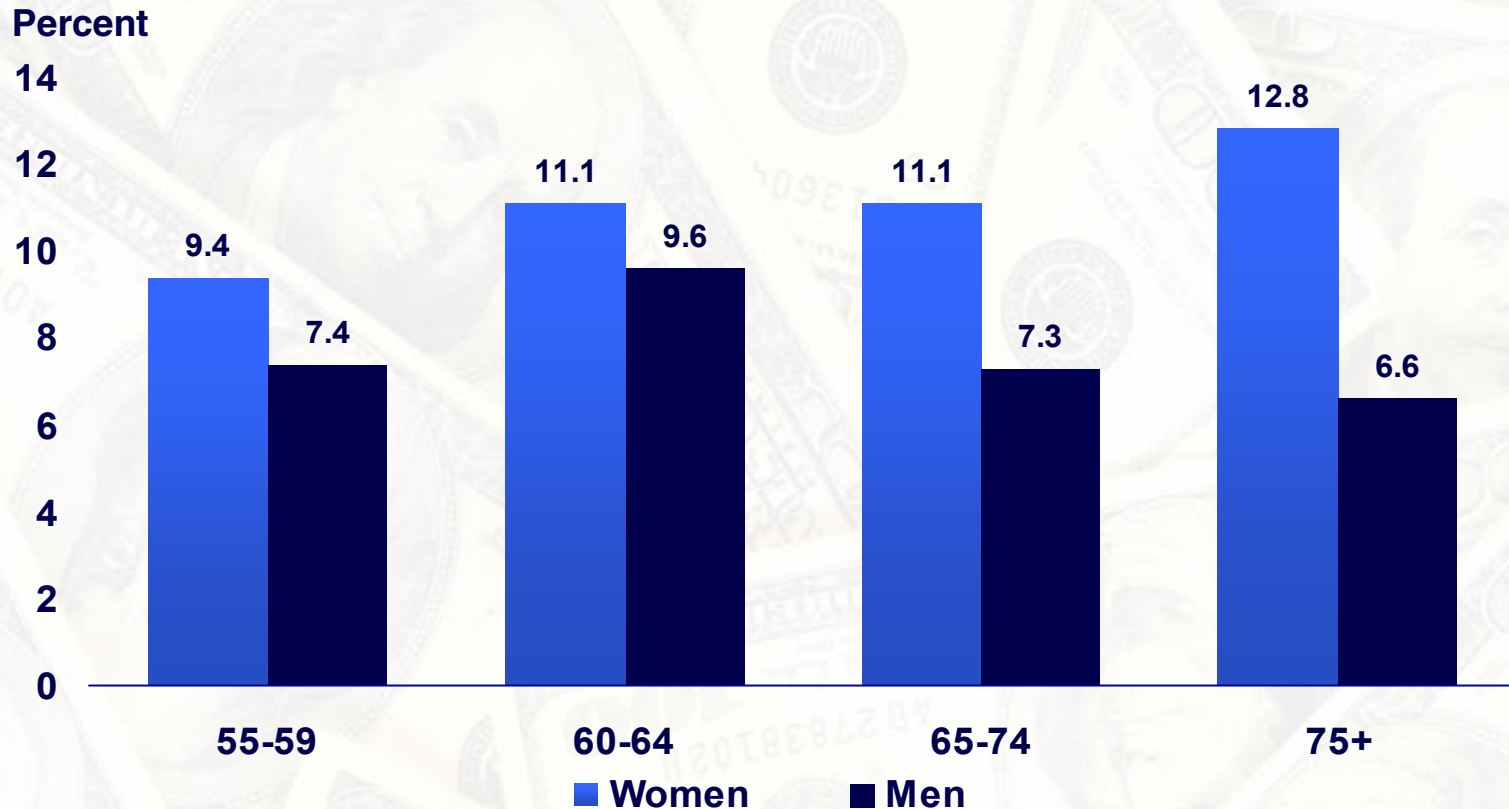
Percentage of Men & Women 65 & Older Receiving Income from Various Sources, 2004



Source: Social Security Administration, *Income of the Population 55 or Older, 2004*

Older Women Are More Likely Than Older Men to Be Living Below the Poverty Level

Percent of Men and Women With Income Below 100 Percent of Poverty Level, 2004



Source: U.S. Census Bureau, Current Population Survey, March 2005

Women Have Fewer Resources At Retirement Than Men

Differences in lifetime earnings and work histories result in lower retirement income for women; compared to men, on average:

- Women have weaker labor force attachment and lower earnings
- Women receive lower monthly Social Security benefits
- Women are less likely to have pension coverage
- Women receive lower pension benefits
- Women receive less from asset income

Impact of Life Events on Financial Security

- **Marital Status**
 - Divorce
 - Widowhood
- **Health Shocks**
- **Long-term Care**

Financial Impact of Divorce

For women, and some men, divorce typically means a decline in retirement income or savings or even poverty

- The divorce rate increased significantly throughout the 1950s-1970s, but was stable from the mid-1970s through the mid-1990s
- In 2001, first marriages ending in divorce lasted on average 8 years, 2 years less than the minimum required for Social Security spousal benefits
- Women and men who divorce experience a 44 percent decline in household wealth, on average

Sources: U.S. Census and Boston Center for Retirement Research

Financial Impact of Widowhood

- Women and men who become widowed experience, on average, a 13 percent decline in household wealth
- Only 21 percent of widows receive survivor pensions based on their husbands' benefits
- In 2003, of those aged 65 and over:
 - 14 percent of men were widowers
 - 44 percent of women were widows

Financial Impact of Health Shocks

Workers Near Retirement Age May Lose Current and Retirement Income Due to Unexpected Negative Health Events

- Health shocks are likely to result in a loss of lifetime income for individuals and family because:
 - Affected worker may need to reduce work dramatically
 - Spouse may also reduce work dramatically
 - Private savings may have to be used to finance additional medical expenses

Living Longer Increases the Likelihood of Becoming Disabled

Proportion of those age 65 and over with chronic disability, 1999

Women	Men
23 %	15 %

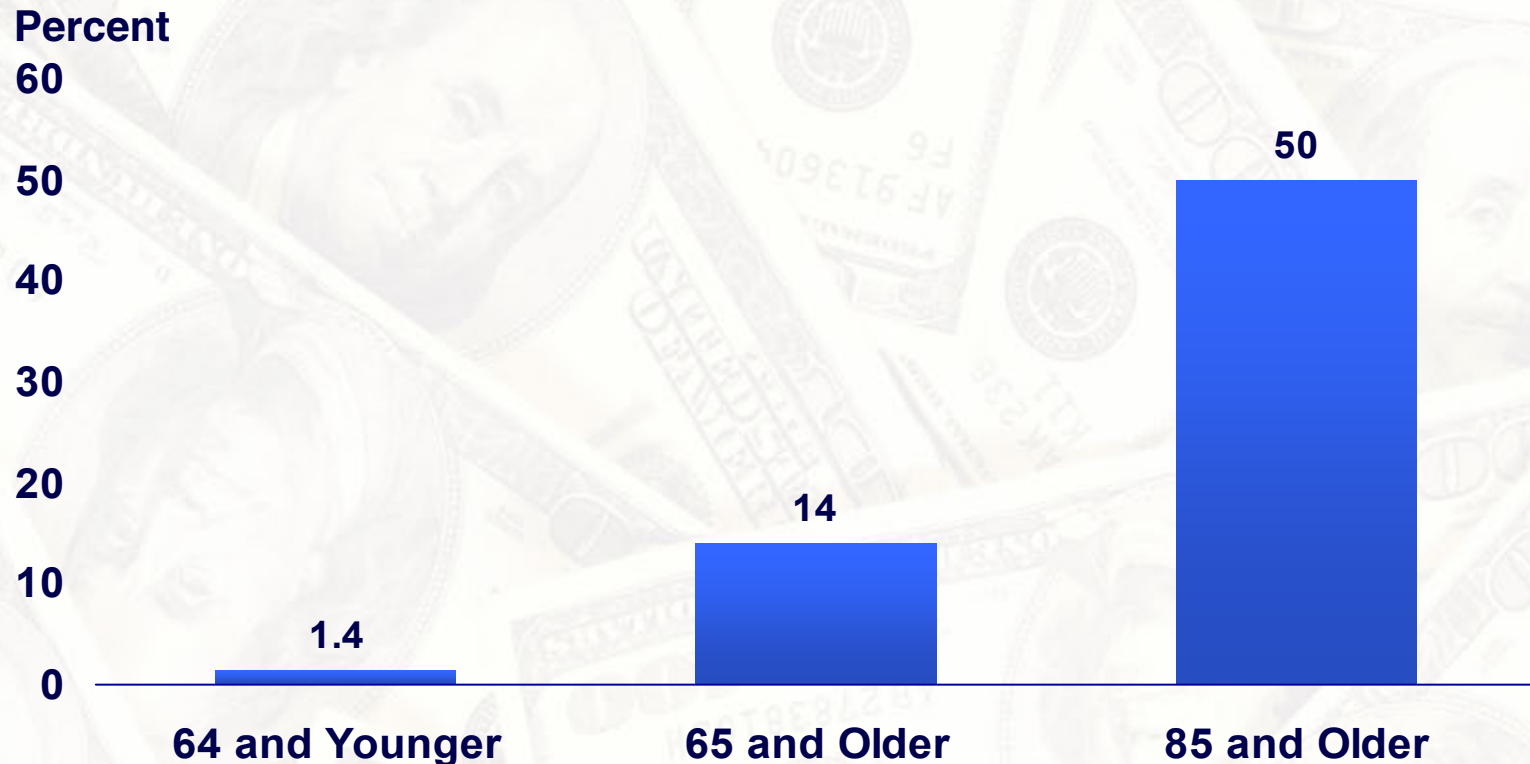
Percentage of Medicare enrollees age 65 and over reporting inability to perform at least 1 of 5 certain physical functions, 2002

Women	Men
31 %	18 %

Source: *Older Americans 2004: Key Indicators of Well-Being*, Federal Interagency Forum on Aging Related Statistics

Living Longer Increases the Likelihood of Needing Long-term Care

Percent of the Population Needing Long-term Care, by Age, 2000



Source: Georgetown University Long Term Care Financing Project, "Who Needs Long Term Care?" 2003

Women Represent More Than Two-thirds of Those Needing Long-Term Care

Women represent

- 69 percent of those age 65 and older who reside in a community such as an assisted living care center
- 72 percent of all nursing home residents

Source: Georgetown University Long Term Care Financing Project, "Who Needs Long Term Care?" 2003.

Cost of Long-term Care

Average Annual Health Care Costs Among Medicare Enrollees Age 65 and Over, by Institutional Status, 2001

	Average cost in dollars
Nursing Homes and Other Long-term Care Institutions	\$46,810
Community Residents	8,466

Source: *Older Americans 2004: Key Indicators of Well-Being*, Federal Interagency Forum on Aging Related Statistics

GAO's Ongoing Work on Women's Retirement

Gordon Smith, Chair of the Senate Special Committee on Aging, has requested that GAO:

- Describe the current status of women in the labor force, the sources and adequacy of women's retirement income, and the rate of poverty among women
- Describe and examine the effects that significant life events may have on women's retirement income, such as divorce, health shocks, widowhood, or workforce interruptions
- Examine and describe the potential impacts of Social Security and employer-provided pension reforms that are targeted at women, as well as those that may inadvertently have a different impact on men and women
- Project women's retirement income given selected elements of individual Social Security and employer-provided pension reform options.

Projected issuance date is June 2007

Key Oversight Areas for Congress

On November 17, 2006, the Comptroller General submitted a letter to Congress recommending three areas of consideration to improve the 110th Congress' oversight of federal programs:

- Targets for near-term oversight (e.g., reviewing the effectiveness of strategies to ensure workplace safety)
- Policies and programs that are in need of fundamental reform and re-engineering (e.g., strengthening retirement security through reforming Social Security, increasing pension saving, and promoting financial literacy)
- Governance issues that should be addressed to help ensure an economical, efficient, ethical, and equitable federal government capable of responding to the various challenges and capitalizing on related opportunities in the 21st century (e.g., pursuing the development of key national indicators)

Strengthen Retirement Security Through Reforming Social Security, Increasing Pension Saving, and Promoting Financial Literacy

Recommended Congressional actions to improve oversight of the Social Security and pension systems:

- Take actions to restore fiscal solvency and sustainability to the Social Security programs.
- Monitor the effectiveness of recent pension legislation designed to strengthen plan funding and reduce reliance on the federal pension insurance program
- Examine adequacy of 401(k) balances and other forms of self-directed saving

Strengthen Retirement Security Through Reforming Social Security, Increasing Pension Saving, and Promoting Financial Literacy (cont'd)

- Improve federal agencies' efforts to inform American workers about the importance of saving, the amounts that will be necessary for an adequate retirement, and the importance of annuitizing retirement balances
- Evaluate and improve federal agencies' coordinated leadership of financial literacy initiatives to enhance such programs' effectiveness
- Identify and estimate the cost of ways of evaluating financial literacy programs to determine if they promote positive behavioral change

Key Leadership Attributes Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***

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On the Web

Web site: www.gao.gov/cghome.htm

Contact

Paul Anderson, Managing Director, Public Affairs
AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office
441 G Street NW, Room 7149
Washington, D.C. 20548

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