S. HRG. 107–582

SETTLING FOR SILVER IN THE GOLDEN YEARS: THE SPECIAL CHALLENGES OF WOMEN IN RETIREMENT PLANNING AND SECURITY

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

WASHINGTON, DC

MAY 23, 2002

Serial No. 107–26

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE

80–874 PDF WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

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SETTLING FOR SILVER IN THE GOLDEN YEARS: THE SPECIAL CHALLENGES OF WOMEN IN RETIREMENT PLANNING AND SECURITY

THURSDAY, MAY 23, 2002

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SD–628, Dirksen Senate Office Building, Hon. Larry E. Craig presiding.

Present: Senator Craig.

OPENING STATEMENT OF SENATOR LARRY E. CRAIG

Senator CRAIG. Let me call this hearing of the Senate Special Committee on Aging to order. Good morning, everyone.

I want to thank you for joining us in this hearing this morning, which is entitled, "Settling for Silver in the Golden Years: The Special Challenges of Women in Retirement Planning and Security."

Thanks also, of course, to the staff for working with all of you to put this hearing on. Also a very special thanks to Chairman John Breaux for helping facilitate this and for allowing me to chair the hearing this morning.

As most of you know, the Special Committee on Aging is not a legislative body. It is an oversight body and a hearing body. But much of what we do—and part of the record that you will help us develop today—has been very important over the years in changing the direction and the character of legislation and public policy.

So I hope you feel that your presence here today before the committee and the record that you will build will be valuable.

Several other of our colleagues may be joining us through the course of the hearing this morning to listen and to make comments.

As many of you know, security in retirement is often described as a three-legged stool, one leg of which is Social Security, another is employment-related pensions, and a third is individual investing and savings. For most of us, no single leg is sufficient, and problems with even one can lead to serious repercussions to one's retirement plans.

Navigating the challenges of retirement planning has become an increasingly complex task in today's society—for both men and women. For women, however, the retirement stool is significantly more wobbly than it is for men. Indeed, in all three areas of retirement security, women today lag significantly behind men. In Social

Security, for example, even though women account for 60 percent of the program's beneficiaries and tend to live 7 years longer in retirement than men, they receive only about 75 percent as much in Social Security benefits.

Similarly, women tend to benefit far less from workplace-based pensions or 401(k) plans. Only about 27 percent of retired women receive pension income, compared to about 47 percent of men. And in personal savings and investment, as well, women fall behind, averaging only about one-half the personal savings rate of men.

We are here today to examine why this is the case and to spotlight strategies and resources that women and their families can turn to for help. Among our witnesses this morning, for example, is the Executive Director of the Women's Institute for a Secure Retirement, which just this week issued a new publication aimed at better educating women and their families about the special challenges faced by women in retirement planning, ranging from women's patterns of employment, to divorce, to the retirement implications of child rearing and caregiving.

I am also very pleased to have with us Irene LaMarche from my home State of Idaho. Irene is currently retired and living in Boise, and she will share with us some of the problems and challenges she has faced in her professional and financial experience.

To all of our witnesses again, a very special thanks for being with us today. Now let me welcome our first panel up and introduce them for the record and to all of you who are here this morning.

Cindy Hounsell is Executive Director of the Women's Institute for a Secure Retirement here in Washington.

Dorcas Hardy, whom I have had the opportunity to know over the years, is President of Dorcas Hardy & Associates and former Commissioner of the Social Security Administration.

Muriel Siebert—I am told you go by "Mickey"; is that correct——

Ms. SIEBERT. That is right.

Senator CRAIG. Thank you. You are President and Chairwomen of Muriel Siebert & Company, and Women's Financial Network at Siebert in New York.

Laurie Young is Executive Director of the Older Women's League here in Washington, better-known as OWL.

We thank you all for being with us, and Cindy, we will start with you. Again, welcome to the committee.

[The prepared statement of Senator Breaux follows along with a prepared statement of Senator Smith:]

PREPARED STATEMENT OF SENATOR JOHN BREAUX

Good morning and thank you all for coming today. I would also like to thank Senator Craig for his interest in this important issue facing America's women. We all know far too well that women in America bear an overwhelming burden when it comes to caring for children, spouses and aging parents, while at the same time caring for their own health and well-being. Unfortunately, as you all will certainly point out, women are falling behind when it comes to taking care of their financial security and retirement preparation. Women spend so much time taking care of everyone else, they neglect themselves. This is simply unfair.

Women are living longer, many times outliving their male spouses. Older women are also far more likely to be living in poverty than men. As this hearing will explore, there are many factors that contribute to these statistics—factors that cannot easily be changed. However, by building awareness of the important steps women can take to prepare for their own retirement, we can slowly begin to change these statistics as millions of women from the Baby Boom generation reach retirement age.

Throughout history women have risen to the challenges put before them. They have fought successfully for their right to vote, they have demanded equal pay for equal work and shattered corporate glass ceilings. Now is the time to rise to another challenge—living securely and independently into older age.

It is my hope that hearings such as these will serve as a powerful catalyst in getting these issues into the consciousness of women across America.

PREPARED STATEMENT OF SENATOR GORDON SMITH

Mr. Chairman, I want to say how happy I am to serve as a new member of this committee and am also pleased that the first hearing I am able to attend is on the very important issue of the special challenges of women in retirement planning.

In particular, the problems that current women social security beneficiaries have are of the utmost importance. Many current female beneficiaries have retired based on a husband's benefit . . . they are beneficiaries from a generation that perhaps stayed at home and worked harder than most, in my opinion, by raising families.

Now demographics have changed but we still have many women beneficiaries that are dealing with inequities of the current Social Security system.

In looking at the history of Social Security—it is evident that women were an integral component. The first woman to serve as a member of the Cabinet was Secretary of Labor Frances Perkins. Secretary Perkins also was a leader in designing Social Security.

And as we all know the first beneficiary to receive a benefit from the system was Ida May Fuller.

Today women comprise the majority of Social Security beneficiaries, representing almost 60 percent of all Social Security recipients at age 65 and 71 percent of all recipients by age 85.

And many categories of these women—the elderly, the disabled and the divorced are more likely to live near the poverty line.

Just a week and a half ago, following my appointment to this committee, Senator Feinstein and I introduced "The Social Security Benefit Enhancement Act for Women Act of 2002." It is a small bill but an important one that makes improvements that will enhance benefits for disabled widows, divorced retirees and widows whose husbands died shortly after an early retirement.

We introduced this package mirroring the House bill, which passed a few weeks ago by a vote of 418 to 0. Clearly making these kinds of benefit changes is a bipartisan effort—while they are small benefits—showing that we can work together on issues we all care about. Social Security is at the top of that list.

So I'm pleased to be here and hear from these panels and experts. I hope that my colleagues will have a chance to cosponsor S. 2533—The Social Security Benefit Enhancements for Women Act of 2002.

STATEMENT OF CINDY HOUNSELL, EXECUTIVE DIRECTOR, WOMEN'S INSTITUTE FOR A SECURE RETIREMENT, WASHINGTON, DC

Ms. HOUNSELL. Thank you very much. I am pleased to be here.

WISER is an organization that was launched in response to a growing need to improve the long-term financial security of all women through education and advocacy. Our retirement education program, The Power Center, is funded through a grant in cooperative partnership with the Administration on Aging. The program uses a training technique that not only improves the knowledge of participants but helps them to take action and make better financial decisions.

Predatory lending scams are an important part of our program, because a disproportionate number of older women are the purchasers of financial products that charge an exorbitant rate of interest and may jeopardize their ability to retain their homes. The program includes many partners—employers, women's organizations, and community-based groups. Government agencies have included the Cooperative Extension Service at the Department of Agriculture, the Department of Labor's Pension Welfare Benefits Administration, the Women's Bureau, and the Social Security Administration. I think that what most of us know, all of the partners mentioned, is that very few people have the sophisticated knowledge needed for today's financial issues and that is the problem that we want to address today. The need for and the problem with financial education, is one of the reasons why we have released this new report, Your Future Paycheck What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments.

The report reveals the direct link between a woman's current paycheck and her future retirement prospects. The report also addresses the other factors that prevent women from securing adequate retirement income. Women face a host of obstacles, as you have already mentioned, but one of the important issues, I think, which people do not pay enough attention to is that working women, while they have increased their participation in the workforce, two-thirds of today's full-time working women earn less than $30,000.

As women came into the workforce in large numbers, the traditional employer-paid health and pension benefits were becoming scarce. The norm is now for employee-paid and investment-directed savings plans such as 401(k)s and 403(b) plans. For women, not only is there the difficulty of working in a job where there is access to a retirement plan, but there is also the problem of having enough money to contribute to their plan and making that money last for a lifetime—a lifetime that is on average longer than for men of their same age.

Those factors are coupled with marginal work, entering and exiting the workforce as they leave their jobs to care for their families. Women are twice as likely as men to work part-time, and fewer years at work means smaller Social Security and pension benefits and less money to save.

Women's economic security is also threatened by divorce, separation, or the death of a spouse. Older women living alone are much more likely to be poor.

As WISER provides financial education, for women we hear from many women who are convinced that they will never be able to stop working. They worry that they will never be able to retire despite a lifetime of hard work in and out of the home. Their concerns are backed by a trend now among experts who have stopped talking about the three-legged stool to describe retirement income, because experts now recognize that pensions, Social Security, and individual savings will not provide enough income for retirement.

Experts are now beginning to routinely refer to a four-or five-legged stool that includes earnings from employment along with SSI, a poverty program. However, working beyond age 65 out of choice is different from desperately applying for jobs at age 75 or 80 in order to pay for your medication or your rent.

When I saw the title of the hearing, I thought that "Settling for Silver" may mean the quarters left on the table for older women working as waitresses. Often, we see older women waitressing, and they are not doing it just because they are interested in getting out of the house—they need that income to pay for necessities.

So how can a woman's retirement income become more like a man's? The answer unfortunately is neither easily nor quickly. If she works full-time, has higher than average earnings, has a retirement plan, then she is equally likely to participate in it. But the reality of the modern American workplace is that women are still the ones who have the children, and they are still willing to drop out of the workforce and care for those children. We see it all the time now. We see a lot of young professional women who have been working for 5 or 6 years, they have their second child, and they just cannot keep all the balls in the air, and the family priorities take over and they exit from the workforce and their profession.

Women also have less money to save and invest, unless they are able to save sufficiently, their retirement suffers. Today's younger women are more likely to carry credit card debt than younger men, and more single young women than men live paycheck to paycheck.

The data in the your future paycheck report is intended to alert policymakers to the need to examine future pension and Social Security reforms together, to have a cohesive retirement policy in order to ensure that these changes will meet the needs of today's women.

As the mainstay of support for women, the Social Security program has helped to protect many women from outright poverty. Any future changes to the program should retain the income support features on which low- and moderate-income Americans rely most heavily.

All Americans are being asked to assume new responsibilities in making more complex retirement savings decisions, but retirement issues are very difficult issues to understand, and the conflicting financial advice among the millions of pages available on the internet only seems to make the problem more confusing for both men and women.

To end on a positive note, consider the education of Audrey Gray, a 35-year-old African American data entry operator for a national bank in Atlanta, GA. In 1997, Ms. Gray attended a financial literacy workshop. She says, "I attended because I realized I did not have much savings, and I should have started my 401(k) in my twenties," which is what all the experts say she should have done. "But nobody ever told me this was important to do. I never thought I would be able to get out from under debt. I had a pension plan in my job, but I did not feel comfortable because of the debt. I felt I could not contribute enough money into my 401(k) without making it too hard to make ends meet. Something had to be sacrificed, and I sacrificed the 401(k)."

Five years later, Ms. Gray is debt-free, contributes to her retirement plan, and says she enjoys having a future financial plan.

It is important for this committee to provide the leadership to other policymakers that people need financial education; they cannot be making all of these decisions on their own, and employers especially need to be able to help provide that education, because that is the one place where people listen to what they are told.

Thank you for this opportunity to participate.

Senator CRAIG. Cindy, thank you. I forgot to mention that the WISER organization is affiliated with the Heinz Family Philanthropies.

Ms. HOUNSELL. Yes. We were launched by the Heinz Family Philanthropies.

Senator CRAIG. And your primary goal is to educate women. Thank you for that testimony.

[The prepared statement of Ms. Hounsell follows:]

U.S. Special Committee On Aging
Hearing on "Settling for Silver in the Golden Years."

Prepared Statement of Cindy Hounsell
Executive Director
Women's Institute for a Secure Retirement
9:30 a.m. Thursday, May 23, 2002 – Dirksen 628

Introduction

Good Morning, I am Cindy Hounsell, Executive Director of the Women's Institute for a Secure Retirement (WISER), an organization launched in 1996 by the Teresa and H. John Heinz III Foundation in response to a growing need to improve the long-term financial security of all women, through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income through research, training workshops, education materials and outreach.

We commend the Committee for examining the special challenges and difficulties faced by women in preparing for and managing their retirement years. This testimony begins by arguing that the retirement needs of women deserve special attention and outlines the systemic problems that prevent women from securing adequate income.

The second part of the testimony describes WISER's retirement education program, the POWERCenter, a program funded through a grant and cooperative partnership with the Administration on Aging and the National Center on Women and Aging. The program uses a training technique that not only improves the knowledge of the participants but helps them to take action by providing practical steps they can take and use to make better financial decisions. Predatory lending scams are also an important part of our program because a disproportionate number of women are the purchasers of financial products that charge an exorbitant rate of interest and may jeopardize their ability to retain their homes.

The third part of the testimony discusses the outlook for women's retirement and the need for policy direction to improve women's ability to receive the maximum amount from Social Security, 401(k) plans, or savings accounts. The problems discussed at today's hearing can only be addressed at the national level. Women of all ages need your help. Leadership from the Special Committee on Aging will send an important message to legislative bodies and policy makers throughout the federal government.

WISER has just released a comprehensive analysis of the impediments that women face in preparing for a secure retirement. ***Your Future Paycheck: What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments*** (May 2002) reveals the direct link between a woman's current paycheck and her retirement prospects. ***Your Future Paycheck*** is the first report of its kind to address all the factors preventing women from a secure retirement.

Findings from ***Your Future Paycheck*** include:

- The median salary for full time working women was $27,355, compared to $37,339 for men.
- In 2000, the median personal income for women age 65 years and older was $10,899. For men in the same age group, it was $19,168.
- Older women today are twice as likely as men to be poor.
- 63% of single (widowed, divorced, never married) older women have retirement incomes under $15,000.
- Only one in five older women receive income from private pensions.
- Women lose $659,139 in earnings as a result of care giving during their lifetime.
- The population over age 85 is expected to double over the next 30 years, giving the nation as a whole the demographic profile of the state of Florida.

I. Systemic Problems that Increase Poverty among Older Women

Women face a host of obstacles that jeopardize their economic security. Occupational segregation concentrates women in service sector, part-time, non-union, and small firm jobs, where employment benefits are less common, less generous, and often non-existent. While working women have increased their participation in the workforce they are still struggling with the issue of pay – two-thirds of today's full-time working women earn less than $30,000.

Compounding these problems is the traditional employer retirement system that has undergone a dramatic transformation from employer paid pension plans to employee-paid and investment directed savings plans such as 401(k)s. For women, not only is there the difficulty of contributing to their 401(k) plans, there is also the problem of making their money last for a lifetime… a lifetime that is on average four years longer than for men.

But the problem is not just low pay and poor benefits. Those factors are coupled with marginal work, entering and exiting the workforce as they leave jobs to care for their families, and a general lack of knowledge about money management that is also shared by much of the American public.

Poverty among older women is directly related to child-care and family responsibilities and to earning power and employee benefits. Women continue to serve as their families' primary care givers for both children and older parents, and as a result, are more likely to work part-time in jobs without benefits or take time out of the workforce. Caregiving responsibilities cause women to spend about 9 years out of the job market. Fewer years at work means that they are less likely to be eligible for employer pension benefits and, combined with lower pay, means smaller Social Security benefits and fewer savings. For women with income from private pensions or annuities, their median benefit is $4,164, compared to $7,768 for men.

Older women are much more likely to live alone than older men. In 2000, only 40 percent of older women were married, compared to 74 percent of older men. Older women living alone are much more likely to be poor: The poverty rate for single black women over age 65 was 43 percent and for single Hispanic women 38 percent, nearly twice that of white women.

Women's economic security is also threatened by divorce, separation, or death of a spouse. Nearly 30 percent of all divorced older women and nearly 60 percent of all separated older women are minorities. Today, nearly half of all marriages end in divorce, which in turn leads to a significant decline in a women's standard of living, as well as missing out on the future retirement benefits that dissolve through divorce or the death of a spouse.

We frequently hear from women who are convinced that they will never be able to stop working and truly be able to retire, despite a lifetime of hard work both in and out of the home. Their concerns are backed by a trend among experts who have stopped talking about the 3-legged stool to describe retirement income, recognizing that pensions, Social Security and individual savings will not provide enough income for retirement. Experts now routinely refer to a four- or five-legged stool, that include earnings from employment, along with SSI a poverty program. However, working beyond age 65 out of choice is different from desperately applying for jobs at age 75 or 80 in order to pay for medications.

II. WISER's Education and Outreach Program

A. POWERCenter (Program on Women's Education for Retirement)

Through a cooperative partnership with the Administration on Aging and the National Center on Women and Aging, WISER has instituted the POWERCenter's community education program to help women prepare for the future. The POWERCenter's primary goal is to educate the maximum number of women with information that can assist in retirement planning, and provide average and low-income women with the opportunity to take the first step toward controlling their financial futures. Based on our experience that the first step is different for each group of women, POWERCenter workshops and materials are designed to adapt to varying needs. The program encourages women to adopt a long range financial view by embarking on a lifelong financial journey that will lead to such important steps as access to retirement plans and building personal assets.

We have learned that the community partners trust us because we are not selling anything but simply helping people who can least afford to make financial mistakes. We are also bringing resources to their community and helping organizations work together.

The program includes many partners: employers, women's organizations and community based groups. Government agencies have included the Cooperative Extension Service, the Department of Labor's Pensions Welfare Benefits Administration and the Women's Bureau, and the Social Security Administration.

The POWERCenter has two overarching goals:

- Ensure that the educational material and program reaches women in their communities and places of worship as well as their jobs.
- Encourage women to take an active role in planning for their future.

Interactive workshops

WISER has developed and tested a program with training techniques that hit home to diverse audiences. *Your Future Paycheck* provides practical knowledge by interweaving substantive information with case histories of women who have worked and cared for their families their entire lives. The stories spark interest in the substantive issues from participants. Participants identify with the situational problems and remember the solutions.

WISER urges workshop participants to make sure they have a basic financial plan and we show them how to take manageable steps to retain more of their earnings. We also acknowledge the fact that many of the participants are behind the eight ball when it comes to saving for the future. We emphasize taking small steps to avoid being overwhelmed. We have found that addressing these everyday issues resonate with participants:

- Gaps in employment, lower wages, and fewer benefits: Practical suggestions for women with children who must prepare for gaps in employment, lower wages, and fewer benefits.
- Ways to maximize retirement benefits while working: access to employer savings plans and techniques for saving on one's own.
- Credit counseling and common money mistakes: Credit problems, credit repair, debt reduction.
- First Time Home Ownership programs and Individual Development Accounts.
- Types of Insurance and immediate annuities.

- Social Security as a retirement program and as a program that provides survivor benefits to children and disability benefits.

- Predatory lending scams.

In the past 3-½ years, WISER has conducted 90 workshops attended by approximately 8,000 women and men, partnering with over 40 different grassroots organizations. Of the 90 workshops, fifteen have been train-the-trainer workshops, training community activists who will take the information and hold workshops in their communities. Among our most successful train-the-trainer partnerships have been:

1) Power 2000+ project with the US Administration on Aging and the FDIC.

2) Mothers'Voices/ Multi- Ethnic Retirement Project, which has held 10 workshops in African-American churches in Atlanta. Women from these and other train-the-trainer workshops are successfully conducting workshops throughout the country.

3) MANA – A National Latina Project. WISER and MANA have jointly conducted 15 workshops at MANA chapters on the West Coast and at national meetings of all chapters. In 2000, WISER and MANA initiated a special financial program for Latina teenagers through MANA's HERMANITAS Program.

WISER's workshops have reached a diverse audience, including:

- child care providers and social workers,
- women coming off of welfare and being trained as daycare providers,
- small business owners and employees of nonprofits including the Greater Washington Urban League,
- Harvard University support staff and other mid-level employees,
- Community college and university students, and
- rural women working out of their own homes.

Additional Community based partnerships include:

- Coalition of 100 Black Women,
- Business and Professional Women,
- General Federation of Women's Clubs
- YWCA and
- the aging community including OWL.

Written materials

Over the past 4 years, our office has distributed more than 2 million individual copies of *What Every Woman Needs to Know about Money and Retirement.* The original distribution was accomplished by including the booklet as a special insert in *Good Housekeeping Magazine* and in *Attache*, the U.S. Airways in-flight magazine – readership at both magazines was estimated at over 27 million readers for *Good Housekeeping* and 1 million readers for *Attache.*

III. The Need for National Policy Direction

How can a woman's retirement income become more like a man's?

The answer, unfortunately, is: neither easily nor quickly. If she works full time, has higher than average earnings, and her employer offers a retirement plan, then she's at least equally likely to participate in it. But the reality of the modern American workplace is that women are twice as likely to work part-time and part-time workers are less likely to have retirement plans. If a woman works for an employer with a tax deferred savings plan – such as a 401(k) or 403(b) – she is less likely than a man to be in a job where she will be offered the opportunity to save. And even if she is offered a savings plan, she is less likely to contribute to it, largely because she earns less.

All Americans are being asked to assume new responsibilities in making more complex retirement savings decisions. But retirement issues are difficult issues to understand and the conflicting financial advice, among the millions of pages available on the internet, seems to make it more confusing for both men and women.

Women need more income because they live longer, yet they have less money to save and invest. When women are unable to save their retirement suffers – today's younger women ages 21-34 are more likely to carry credit card debt than younger men (47% to 35% respectively) and more single young women than men live paycheck-to-paycheck (53% to 42%).

Lower earners not only invest less, they are more conservative investors than high earners. Caregiving, part-time employment, divorce and widowhood are factors that are not changing. The data in *Your Future Paycheck* is intended to alert policymakers to the need to examine future pension and Social Security reforms together as part of a cohesive retirement policy in order to ensure that changes will meet the needs of today's women.

A. The Outlook for Women's Retirement

It is difficult to make predictions about what the future holds for women retiring in the 21st century. One of the biggest changes will be the increase in the number of women and men who live past age 85. The population over age 85 is expected to double over the next 30 years, giving the nation as a whole a demographic profile of the state of Florida.

Changes in women's employment patterns, earnings in private pension plans, and public policy could significantly alter the pension picture for women. But without significant changes, women's work patterns and caregiving responsibilities will continue to place them at a disadvantage in our nation's retirement system. Moreover, the outcome of the current national debate about the future of Social Security could have major implications for women's retirement security. The fourth leg of the new retirement stool – earnings from work after reaching retirement age -- is likely to provide significant income for the baby boomers, at least for those whose health allows them to continue working.

As long as women earn less money than men, work part-time and experience more interruptions from paid work, retirement security will remain elusive. Policy initiatives taken now can help some of the women who have worked hard their whole lives avoid poverty in old age.

. Suggested improvements

Women's retirement issues have begun to command the attention of policymakers. Last week there was a unanimous vote in the House to improve benefits for disabled widows, widows and divorced women. Many other improvements could be made by policymakers to provide women with greater retirement security. As the mainstay of support for women, the Social Security program has helped to protect many women from outright poverty in old age. Any future changes to the program should retain the income support features on which low and moderate income Americans rely most heavily. Some of the pension reform proposals currently under consideration by lawmakers that could enhance women's retirement security include: extending pension coverage to lower-wage, part-time, and temporary workers, increasing survivor benefits, and giving women pension credit for caregiving. Again, future pension and Social Security reforms should be looked at together as part of a cohesive retirement policy.

Additional suggestions for education initiatives include:

- Providing information to help individuals understand the importance of decisions about taking jobs and leaving jobs. Women are more likely to spend their lump-sum retirement distributions because they have smaller amounts in their accounts.

- Providing better public education in financial planning for contingencies such as widowhood and divorce. Educating lawyers and judges about pension division at divorce.

- Increasing public education for average Americans about retirement planning and how much money is needed for 20 – 30 years in retirement. Much of the information in the media is aimed at higher income individuals.

- Considering the effect of various types of insurance on retirement planning -- such as long term care policies.

Finally, to end on a positive note, consider the education of Audrey Gray:

"But no one ever told me this was important to do," says Audrey Gray, a 35-year old, African American data entry operator for a national bank in Atlanta, Georgia.

In 1997, Ms. Gray attended a WISER/Mothers Voices financial literacy workshop. "I realized that I didn't have much savings, and I should have started my 401 (k) in my 20s. But no one ever told me this was important to do."

"I never thought I would be able to get out from under debt," says Gray. "I had a pension plan on my job, but didn't feel comfortable because of the debt. I felt I couldn't contribute enough money into my 401(k) without making it hard for me to make ends meet. Something had to be sacrificed and unfortunately I sacrificed my 401 (k)."

Five years later, Ms. Gray is debt free, contributes to her retirement plan, and says she enjoys having a financial plan.

Thank you for the opportunity to participate in this hearing.

Efforts Focus On Preparing Women For Retirement

BY AMY CARLTON

Despite the growing economy, statistics about the retirement-readiness of working women remain almost uniformly grim. According to the Women's Institute for a Secure Retirement (WISER), nine out of ten working women earn less than $40,000 per year, often in industries with no pension benefits. Women are three times more likely than men to work part-time, and only 15% of part-time workers are eligible for pension plans. Wage gaps leave women at every age level earning less than men. Compared with men, older women are twice as likely to live in poverty.

To prevent the same fate from befalling yet another generation of working women, organizations like WISER are teaming with employers to educate women about the importance of planning for their golden years.

Why aren't more women saving for retirement, and what can and should employers do to help reverse these trends?

According to Diane Savage, senior retirement education consultant at Watson Wyatt Worldwide, there are widespread social issues involved, and to ignore them is to ignore much of the problem. How much one is able to save for retirement is directly related to how much one works and how much one earns, she noted, and women tend to lose out on both those fronts, considering they earn less throughout their work lives and are more likely to have interrupted work histories.

HOW MUCH ONE IS ABLE TO SAVE FOR RETIREMENT IS DIRECTLY RELATED TO HOW MUCH ONE WORKS AND HOW MUCH ONE EARNS, AND WOMEN TEND TO LOSE OUT ON BOTH THOSE FRONTS...

Employer attitudes also can be a barrier to informing women about the necessity of retirement planning, according to WISER's executive director Cindy Hounsell, who commented that she has encountered companies that believe the pension system is just "not for everyone."

Employers should endeavor to show women simple things they can do now to prepare for the future, Ms. Hounsell said. "People need to know that they have to do *something* [to plan for retirement], or else they're going to have to work until they drop," she says. She adds that when women do see and hear the facts about retirement, pay disparity, and the need to start saving, they pay attention.

WISER has found that even women who are already actively saving are not always doing so for their own futures, but for their children's education. "I always tell women that their kids can get scholarships," Ms. Hounsell says, "But there's no scholarship for retirement." She pointed out that economic hardships aren't just for working mothers—single women with no kids also often are too overwhelmed with paying bills to focus on saving for their senior years.

WORKPLACE IDEAS

When devising a corporate strategy to encourage women's retirement planning, employers need to package information so it's "hearable" to women, Ms. Savage advised. Industries with a predominant number of female employees, such as retail, should examine how their communications are worded and distributed.

For example, companies should not blame women or treat them as if they are doing something wrong by not saving for retirement, Ms. Savage cautioned. "The fact that women are behind the eight-ball in pensions is not really their fault," Ms. Savage said. "You can't save what you don't have—it all gets back to that."

One way employers can address this situation is to emphasize the power of compounding, Ms. Savage suggested: how saving a little money on a consistent basis—even $10 per paycheck—can add up over time and with interest.

As part of a three-year grant from the U.S. Department of Health and Human Services Administration on Aging, WISER has joined forces with the National Center on Women and Aging at Brandeis University to form the POWERCenter. The POWERCenter conducts workshops around the country, both to educate employers—even small businesses—about the necessity of offering retirement planning, and to teach women how to take advantage of existing employer plans.

The POWERCenter's workshops use visual aides, such as slides and fact sheet handouts like "Ten Money Myths That Can Get Smart Women Into Trouble" (#5: If your husband has health and pension plans, you don't need to worry about your own). Workshop leaders also use individual anecdotes that bring financial issues to a personal level.

One recent project included two training sessions at Bright Beginnings Child Development Center, a day-care center in Washington, D.C., for children whose families live in shelters and transitional housing. Bright Beginnings also trains homeless women to be day-care providers, and sponsors an IRC Sec. 403(b) annuity plan for its teachers and family service employees. Although the POWERCenter does much of its work with lower- and middle-income women, adapting a program for very low-income women proved challenging, Ms. Hounsell related.

The sessions provided practical knowledge and advice about savings, pensions, money management, credit card debt, and other financial matters. The main goal of the program was to show the women how to take a long-term view of their finances, not an easy task for a demographic hovering around the poverty line. As Ms. Hounsell said, "They tend to think, 'I have no money, this is irrelevant to me.'" The minimum contribution for the Bright Beginnings' 403(b) plan was $25/month. Most of the women made $20,000 or less, so even saving $25 a month could be a struggle.

Ms. Hounsell said her group discovered the best way to reach this audience was to show them how to figure out how much they had, then how much they would need for retirement. One graphic that successfully illustrated WISER's message showed the three-legged stool of personal savings, pension benefits, and Social Security. Just as a stool can't stand without all three legs, women cannot rely on only one or two of those three sources of retirement income, Ms. Hounsell commented.

As a follow-up, the POWERCenter plans to recruit volunteer accountants to go over tax forms with the Bright Beginnings employees to make sure they're taking all their deductions, such as the Earned Income Tax Credit, and getting as large of a refund as they can. Employees also will be shown how contributing to a retirement plan can reduce their taxes.

Different audiences require different information, Ms. Hounsell says, so the POWERCenter tries to customize presentations based on the needs of each employee group. For example, in a workshop with male employees from the D.C. Metro public transportation system, Ms. Hounsell found that although the workers had similar backgrounds to the Bright Beginnings staff, they already were better-informed about pensions because of union efforts. Many of the union workers already were covered by a defined benefit pension plan and some had a 401(k) as a secondary plan.

Another well-received POWERCenter workshop effort has been the "Your Future Paycheck Project." After age 65, Ms. Hounsell explained, a woman needs to come up with her own "paycheck" of savings, Social Security, investments, and pension benefits (minus health care and other costs) to provide income during her retirement. In addition to correcting the misinformation many women have about money and financial security, the Paycheck Project educates women's organizations about the importance of learning financial planning, providing those organizations with the tools to teach more women. ◆

WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Embargoed until:
May 22, 2002

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WOMEN STILL HAVE LESS MONEY FOR RETIREMENT THAN MEN
WISER Study Reveals Trend to Continue for Younger Women

WASHINGTON, DC—Older women today are twice as likely as men to be poor. Even more startling is this trend is expected to continue for women who recently graduated from college.

These findings are from a new report, ***Your Future Paycheck: What Women Need to Know About Pay, Social Security, Pensions, Savings and Investments*** that reveals the direct link between a woman's current paycheck and her retirement prospects. The report, released by the Women's Institute for a Secure Retirement (WISER), is the first of its kind to address all the factors preventing women from a secure retirement.

While women live longer than men, they end up with less money for retirement due to pay inequities, lack of pension coverage, caregiving, employment patterns, and marital status. These factors can reduce a woman's ability to receive the maximum amount from Social Security, 401(k) plans, or savings. Findings from the report include:

- Women earn 73 cents to every dollar a man makes.
- Only one in five women receive income from private pensions.
- Women lose $659,139 in earnings as a result of care giving during their lifetime.
- A 25-year-old woman with a college degree today will lose $523,000 in her lifetime due to these factors.
- 63% of single (widowed, divorced, never married) older women have retirement incomes under $15,000.

"Since women make less money they don't have as much money to put into retirement savings. Many women, regardless of what they do and whether they work full-time or part-time, face this fact. Men don't share the same consequences" said Cindy Hounsell, executive director of WISER.

Your Future Paycheck also revealed:

Working and Saving:

- Women ages 21-34 are more likely to carry credit card debt than men (47% to 35% respectively).
- More single young women than men live paycheck-to-paycheck (53% to 42%).
- 80% of baby boomers surveyed say they plan to work during retirement.
- More women work part-time in female-dominated occupations that pay less and do not offer benefits.

Wage Gap:

- Half of all full-time working women earned less than $27,355 compared to $37,339 for men, so they have less money to save.
- Women are earning about 70 percent of what men earn with the same college education.

Pensions:

- Many women are unable to take full advantage of their pension plans.
- 45.5% of working women participate in pension plans compared to 54.5% of men.
- For women with income from private pensions or annuities, their median benefit is $4,164, compared to $7,768 for men.

The full report, ***Your Future Paycheck***, and an executive summary may be obtained at **www.wiser.heinz.org**.

The Women's Institute for a Secure Retirement (WISER) is a 501(c) (3) nonprofit dedicated to ensuring the security of women's retirement income through outreach, partnerships, and policy advocacy.

Senator CRAIG. Now let me turn to Ms. Hardy. As I mentioned, Dorcas is former Commissioner of the Social Security Administration under Presidents Reagan and Bush, and we have had the opportunity over the years to work on a variety of issues related to Social Security and other retirement programs.

Dorcas, we are pleased to have you before the committee.

STATEMENT OF DORCAS R. HARDY, PRESIDENT, DORCAS R. HARDY & ASSOCIATES, SPOTSYLVANIA, VA, AND FORMER COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Ms. HARDY. Thank you, Mr. Chairman. It is my pleasure to be here.

As you stated, when I served as Assistant Secretary of Human Services and also as Commissioner of Social Security during the 1980's and early 1990's, I was responsible for some of the most important Federal programs for retirees, from Meals on Wheels to Social Security benefits. These programs remain very important today and represent most of the nearly 50 percent of the entire Federal budget which is dedicated to persons over the age of 65. My comments are based on my Federal and State service experiences with the elderly as well as my current consulting, regarding entitlement, health care, disability, and financial services.

Issues related to Americans' pensions and retirement are discussed in several congressional venues. I would like to commend the efforts of the Special Committee to bring together a discussion of these important and very diverse issues within one committee.

Women today, as Cindy has commented, comprise about 90 percent of all the elderly who are a part of Social Security beneficiaries. Women represent about 58 percent of Social Security retiree beneficiaries and about 70 percent of those who are 85 and older. As we look at the receipt of benefits of many of these women, 74 percent of the unmarried elderly do depend on Social Security for at least half of their income.

Even though the benefit formula does provide a higher proportion of pre-retirement earnings to lower-earning workers who are more often women, without Social Security, it is expected that half of the elderly women would meet the Government's definition of poor.

Last week, the House passed reforms that, if they become law, will adjust Social Security to help widows and divorced women who fall through some of the cracks in the system. That legislation should benefit, it is estimated, about 120,000 women, it improves fairness and updates eligibility requirements for some disabled widows and divorced spouses.

Many say that inequities still remain in the way that Social Security treats women. A woman who works outside the home and qualifies for half of her husband's retirement will pay Social Security payroll taxes forever, decade after decade, but she will receive benefits no higher than those received by another woman who is not in the workforce at all and pays no payroll taxes.

Some say that no one this side of the Taliban would propose a special tax levied only on working women as a penalty for working outside the house, but this is the effect of that Depression era provision of the Nation's retirement system. Six of every 10 women pay a huge amount of Social Security taxes, usually more than they pay in income taxes, and receive no added benefits. I believe that is part of a critically needed redesign of the Social Security system.

We have also mentioned that the graying of America is upon us, and it has begun in earnest. I always say that that is good news and bad news. Obviously, we would all like to live longer. Annually, a new city the size of Boston is created and populated by persons over 65. In 2000, we reached the mark of 100,000 persons over age 100, and soon, the entire Nation will look like the State of Florida.

Women retirees are at the forefront, which is terrific—some would say that is somewhat negative, but we are living longer. We reach age 65 and live on average almost 20 years compared to 16 years for a man. Life expectancy rates at age 65 are anticipated to increase to over 20 years for women, whereas only about 17 years for men.

The fastest growth will come among the numbers of the so-called old-old, persons who are over 85. They are the most vulnerable.

The cumulative growth in the 85 and over population between 1995 and 2050, which I appreciate is a ways away, is anticipated to be more than 400 percent. I think that the future structure of these populations will affect our social, economic condition, and will particularly affect the economically dependent classes of the population.

Our demography is changing dramatically. So I believe we should be asking how any of these factors influence one's retirement years and how can they be changed for the better. How do we get to the future by better educating our society and having them depend upon themselves?

The women of tomorrow will be different. Many of them will have 401(k)s. They will understand most kinds of investments. The women of tomorrow are many of us. Those retirees are developing an understanding of financial options, and they are also beginning to learn that they need as much as 75 percent of their pre-retirement income for retirement years.

Education is extremely important, and the integration of private and public retirement programs with regard to education is also very important. When I initiated what is now called the Social Security Statement, I wanted to say that all workers should have knowledge about their expected benefits, and in black and white, they should be able to see what Social Security is meant to be, and that it is not the sole source of retirement income.

We need better education with regard to Social Security and we need to dismiss the myth that there is a shoebox in Baltimore that has your contributions or your taxes in it, with your name on it.

We also see in the future a massive transfer of wealth from the young to the old, from the worker to tomorrow's retiree, specifically with regard to the financing of Social Security, but also with Medicare. When you look at the baby boom generation, which currently pays more than 60 percent of all of our taxes, who will be beginning to retire in just 9 years, you are looking at huge, increased payroll costs or some other kind of solution with regard to our public programs.

So I would suggest the following. One is additional financial education, perhaps a personal finance course as a requirement for every high school graduate, because as has been pointed out, it is not just dollars; it is budgeting, insurance, and incredible debt at a young age.

The financial industry has done a good job, but not everybody is listening. So there needs to be a combination of that kind of financial education plus an understanding of what one does once one has some savings.

Second, additional retirement savings incentives. The Congress has increased the maximum contribution to IRAs, but I think it should increase even further—there is no particular reason to have a cap—so that baby boomers would have that opportunity to significantly increase their savings.

The complexity of the whole retirement systems and how they all fit together, from 401(k)s to savings, is very difficult for people to understand. One might consider a very simple and useful savings incentive that would be just a passbook savings account with a deposit limit of $50,000, or $100,000 which would allow tax-free interest. People still do trust their banks, and that at least would give a start to some beginning savers and obviously, conservative investors.

Third is Social Security 101, as I have called it, to really educate people about the system and what their expectations should be.

And fourth and fifth are most important, that is, modernization and redesign of our Social Security and our Medicare systems. We have got to bite the bullet and we have got to tackle these issues in terms of legislation with new programs for both entitlements. Personal retirement accounts as part of Social Security would give a very welcome opportunity for women, for all of us, but especially for women. Much study has been done about that, from the President's Commission to Strengthen Social Security to all sorts of professors throughout academy, and they clearly say that for early widows and divorcees, the personal retirement accounts would be excellent and would keep most people out of a poverty situation.

In conclusion, I think we clearly see that we are all living longer, but we have barely begun to deal with the implications of the graying of America and how it will affect all of us and all of our institutions. We must promote individual responsibility for retirement to the best of one's ability, and empower people through education and economic opportunity to provide for themselves, again, to the best of their ability.

I think the answers to these questions are key to retirement security for seniors today, tomorrow, and in the future, but I have confidence that we will get there—if not tomorrow, but slowly and surely.

Thank you, Mr. Chairman.

Senator CRAIG. Dorcas, thank you very much.

[The prepared statement of Ms. Hardy follows:]

TESTIMONY BEFORE THE SENATE SPECIAL COMMITTEE ON AGING

Challenges Facing Women in Retirement

Thursday, May 23, 2002

Honorable Dorcas R. Hardy
Former Commissioner of Social Security
Member, Social Security Advisory Board

Mr. Chairman, I appreciate the opportunity to appear before you today to present my views on challenges facing women in retirement, and to suggest some possible reforms. When I served as Assistant Secretary of Human Services and as Commissioner of Social Security during the 1980s, I was responsible for some of the most important federal programs for retirees, from meals on wheels to Social Security benefits. These programs remain very important today, and represent most of the nearly 50% of the entire federal budget which is dedicated to persons over the age of 65.

My comments are based on my federal and state service experiences with programs for the elderly, as well as my current consulting in the entitlement, health care and financial industries. I am also a Certified Senior Advisor and shortly expect to become a Certified Financial Planner.

Issues related to Americans' pensions and retirement are discussed in several congressional venues. I want to commend the efforts of the Senate Special Committee on Aging to foster a discussion of these many important, and often nettlesome, issues. The aging of our society has begun to impact all of our social institutions, from education and family to business and government.

I would like to take this opportunity to review the current state of women in retirement today and to talk about the female retiree of tomorrow. I would also like to present my suggestions as to actions that can be taken by both the public and private sectors to help address the challenges faced by women in their older years.

Women in Retirement Today

Some 90% of all elderly are Social Security beneficiaries. According to the Social Security Administration, women represent 58% of all retiree beneficiaries and 71% of beneficiaries age 85 and older. For unmarried women, including widows, age 65 and older, Social Security comprises 51% of their total income. In contrast, Social Security benefits comprise only 37% of unmarried elderly men's retirement income and only 34% of elderly couples' income. Seventy-four (74%) of unmarried elderly women depend on Social Security for at least half of their income; 26 % of unmarried elderly women depend on it for their only source of income. However, the benefit formula does provide a higher proportion of pre-retirement earnings to lower earning workers who are more often women. But, without Social Security, half of elderly women would meet the government's definition of poor.

Last week, the House of Representatives passed reforms that, if they become law, will adjust Social Security to help widows and divorced women who fall through some cracks in the system. Over 120,000 women are expected to see enhancements in their benefits through the *Social Security Benefit Enhancements for Women Act of 2002* that improves fairness and updates eligibility requirements for some disabled widows and divorced spouses.

Many would say that inequities still remain in the way Social Security treats women. A woman who works outside the home and qualifies for half of her husband's retirement benefit will pay Social Security payroll taxes week after week, decade after decade, but she will receive benefits no higher than those received by another woman who is not in the work force and pays no payroll taxes at all. She might as well take those tax dollars, including the payroll taxes paid by her employer – a total of roughly one-eighth of her income—and start a bonfire.

No one this side of the Taliban would propose a special tax levied only on working women, as a penalty for working outside the home. Yet that is the effect of this Depression-era provision of the nation's retirement system. Six of every ten women pay a huge amount of Social Security taxes, usually more than they pay in income taxes, and receive no added benefits. I believe that a critically needed redesign of the Social Security system could remedy these antiquated criteria.

The Graying of America has begun in earnest. It is both good news and bad news that we are all living longer. Annually a new city the size of Boston is created and populated by persons over age 65. In 2000 we reached the mark of 100,000 persons over age 100. Soon the entire Nation will look like the State of Florida. And women retirees are at the forefront.

Women reaching age 65 in 2000 are expected to live, on average, an additional 19.1 years compared to 15.7 years for man. Life expectancy rates at age 65 are anticipated to increase to 20.3 years for women and 17.3 for men in 2030.

The fastest growth will come among the numbers of the so-called old-old, defined as persons who are over age 85, and who are the most vulnerable. Their numbers will increase significantly. From 1995 to 2010, this population is expected to grow by 56 percent, as compared with 13 percent for the population aged 65 to 84. In subsequent decades, especially between 2030 and 2050, the 85-and-over age group will grow sharply as the baby-boom cohorts age. The 85-and-over age group is expected to increase from 3.6 million in 1995 to 5.7 million in 2010, to 8.5 million in 2030, and to 18.2 million in 2050.

Thus, while the expected increase from 2010 to 2030 is less than 50 percent, the increase from 2030 to 2050 is 116 percent. The cumulative growth in the 85-and-over population from 1995 to 2050 is anticipated to be more than 400 percent!

This age structure of future populations will affect the social and economic condition of the Nation, in particular as regards support for the economically dependent classes in our population.

At the same time that our demographics are changing significantly, our elderly population faces a changing social environment that can become a serious detriment to their Golden Years. Author Mary Pipher writes in <u>Another Country</u>:

> Many older people are living in a world designed for young people. They can't drive, walk through shopping malls or airports, or deal with rushed doctors in managed care systems. Many can't handle stairs, small-print books, or menus in darkened restaurants. They have access to expensive and sophisticated medical care that prolongs their lives, but many must sacrifice their savings to afford it.... Modern technological advances, such as dialysis and organ replacement surgeries, keep people alive but create chronic problems of their own. Some people live to be more than a hundred, but they often outlive their support systems, neighborhoods, and bank accounts.

How can any of these factors which influence one's retirement years be changed for the better? Will tomorrow's retirees be any different and, for many, have fewer financial woes? How can we educate our society to depend upon themselves, not federal programs, to the best of their ability, to provide the majority of their retirement income?

Women in Retirement Tomorrow

Women in the workforce today are different than their parents. Many have access to 401(k) plans and other pension options. Some 42% of America's investors are female. Women are developing an understanding of financial options available to them. They are coming to appreciate how the differing lifespans of men and women affect womens' finances. (Today, the average age of widowhood is 56, and 80% of women were not poor before they were widowed.)

They are also beginning to learn that they should plan on needing 75% of pre-retirement income upon their retirement, and that they will probably want to continue to work (for income) after reaching the standard retirement age.

On average, corporate pensions are expected to comprise 20-25% of retirement income. Social Security benefits alone are not sufficient to provide an acceptable lifestyle for most women. Personal savings are absolutely necessary.

With the Personal Earnings and Benefit Estimate Statement from Social Security which I initiated – now simply called the Social Security Statement -- all workers now have knowledge about their expected benefits and, I hope, clear evidence in black and white that Social Security is not meant to be one's sole source of post-employment income.

I hope that people also understand that no one is keeping their payroll taxes in a shoebox in Baltimore waiting for them. Rather, their children, the workers of tomorrow, will be paying their Social Security benefit. Americans need to understand that, to the best of their ability, they must take the primary responsibility to provide for themselves in their Golden Years.

I believe that today's workers are becoming more educated about the role of Social Security and about the need to increase their personal retirement assets, though there is certainly considerable room for further financial education.

A concern that is beginning to surface among the retirees of tomorrow is the future financing of public retirement programs. We all know that Social Security's financial future, under current law, is clearly unsustainable. Medicare also faces the problem of a growing population of beneficiaries relative to taxpayers. The baby boom generation, which currently pays more than 60% of all taxes, will begin retiring in just nine years. Both Social Security and Medicare face a dim future. But Medicare's problems are made worse by two additional factors: rapidly expanding medical care technology and increased medical care utilization.

If we continue on the present course, by the time today's college students reach retirement age, the tax burden created by Medicare will have grown from the current level of about 5.35% of payroll to almost 14%. In order for these students to receive their own benefits, future workers – most of whom are not yet born – <u>will have to pay one of every seven dollars they earn just to cover medical bills for the elderly</u>.

This is a massive transfer of wealth from the young to old, from the worker to tomorrow's retiree. And, when you add the cost of nursing home care that is utilized by 1/3 of those over 85, the fiscal situation becomes even bleaker. Two-thirds (2/3s) of those patients will be Medicaid recipients. By 2030, the growth of state Medicaid budgets will quadruple. Today, Medicaid represents 25% of state budgets. In the future, states will pay as much for Medicaid as they pay today for all state services.

Proposed Actions

These fiscal realities, both personal and public, can be addressed. Following are suggested actions:

1. <u>Financial education</u>

Efforts by the financial services industry to educate workers about savings and investments have been successful but not everyone is listening.

A "Personal Finance" course should be required before every high school student can graduate. It should include not only an overview of Social Security and Medicare, but also taxation, budgeting, insurance, and debt. A uniform curriculum would have a life long benefit.

The financial industry should continue to target and educate women, not just regarding investment management but also Social Security and Medicare and the likelihood of out-living one's resources. Age 60 is too late to remedy a lack of savings, unless one wins the lottery. Financial education is the most important contribution the financial industry can make. Some argue that the financial industry, from investment managers to insurance salespersons will present biased information. That is possible but I believe that most consumers can differentiate a sales pitch from education. Perhaps the industry should consider a Good Housekeeping Seal of Approval from the financial planning association or Consumer Reports.

2. Retirement savings incentives

Though many new tax incentives have been enacted by Congress over recent years, there are additional incentives that would have a positive impact upon retirement financing.

Congress should consider increasing the maximum contribution to an Individual Retirement Account. Recent legislation did increase contributions and allowed for "catch up" contributions. But why not increase the contribution limit to even more than the $5,000 allowable in 2008? Congress should consider abolishing the cap entirely so that the younger baby boomers can contribute as much as possible, as soon as possible, to their IRAs.

Financial planners with whom I have spoken ask for simplification of all the retirement regulations. The complexity of trusts, 401(k) investments, pension plans, and Roth or standard IRAs is often enough to discourage any saver. A simple and useful savings incentive, in addition to an IRA, would be to allow tax-free interest on passbook savings accounts up to a deposit limit of at least $50,000. Persons with conservative investment approaches as well as the beginner saver would welcome this option. Though this would certainly not replace the need for additional resources in retirement, workers at all income levels understand and trust banks.

3. Social Security 101

Social Security is the most complex program ever created. Compounding the public's confusion is the fact that Social Security payroll taxes have been described falsely as "contributions" invested in each worker's name by the federal government. We have a critical need for straightforward education about the limits of Social Security, about the manner in which it transfers income from workers to retirees, about its insurance component, and about its dim fiscal future.

4. Social Security modernization

A modernization of the Social Security program is absolutely essential to the future solvency of the program and the receipt of benefits by tomorrow's retirees. As many have testified before various Congressional committees, and as proposed by the President's Commission to Strengthen Social Security, Social Security reform is necessary and should be tackled as soon as possible.

A new program would preserve the current system for those near or already retired. Personal retirement accounts that are part of Social Security should be funded by allowing workers to allocate a portion of their payroll taxes to them and, most importantly, individual workers should be able to use Social Security to build a nest egg that can be used to increase their retirement income or to build a better financial future for their families.

Harvard professors Martin Feldstein and Jeffrey Liebman, economic advisors to Presidents Reagan and Clinton respectively, have analyzed one plan allowing for Personal Retirement Accounts (PRAs) as part of Social Security. Using data from thousands of actual workers, they have determined that such a plan could cut the poverty rate for retirees in half.

According to Feldstein and Liebman, 95% of the people, including vast majorities in all demographic groups, would benefit. The retirement poverty rate for married women would fall by one-third. For single, widowed, and never married women the poverty rate would fall by nearly two-thirds. For early widows and divorcees, it would fall by more than two-thirds, from 46% to 15%.

Social Security reform that includes Personal Retirement Accounts will make it easier for women to accumulate financial assets, to escape poverty, and, in many cases, to leave a legacy for their families.

5. Medicare reform

I have briefly discussed the dire fiscal situation of Medicare. It is a program that no one is particularly satisfied with. The "premium support" plan proposed by Senators Breaux and Frist would address comprehensive Medicare reform and offer choice for future retirees, similar to the current Federal Employees Health Benefit Program. Today and tomorrow's seniors fully understand that changes in the Medicare system are necessary.

So do the Medicare trustees, who, in their 2002 report, declared that:

> Given the past and projected cost of SMI [Supplementary Medical Insurance, or "Medicare Part B"], we urge the nation's policymakers to consider effective means of controlling SMI costs in the near term. For the longer term, the Administration and the Congress should work together to develop legislative proposals to address the large increases in SMI costs associated with the baby boom attaining eligibility age at the same time that they address the HI [Hospital Insurance, or Medicare Part A] cost increases caused by the aging of that generation.
>
> The projections shown in this report continue to demonstrate the need for timely and effective action to address the financial challenges facing Medicare – both the remaining financial imbalance facing the HI trust fund and the continuing problem of rapid growth in SMI expenditures. We believe that solutions can and must be found to ensure the financial integrity of HI in the long term and to provide effective means of controlling SMI costs. Consideration of further

> reforms should occur in the relatively near future. The unexpectedly favorable conditions resulting in the anticipated HI trust fund surpluses over the nest two decades could change, and deficits could recur sooner than projected. In addition, the sooner the solutions are enacted, the more flexible and gradual they can be. Finally, the early introduction of further reforms increases the time available for affected individuals and organizations – including health care providers, beneficiaries, and taxpayers – to adjust their expectations.

The Congress should move quickly in the direction of comprehensive Medicare reform.

Conclusion

2002 is not 1935. Our society has changed, and is continuing to change.

We are living longer, and we are healthy and active longer. In 1935, age 60 was considered old; now it's just late middle age. We haven't even begun to deal with the implications of the Graying of America -- how it will affect all our social institutions, from education to the family to the economy to the government.

We must also deal with changes in the structure of the family. Once upon a time, many families were made up of three generations of people living together. Today, far more people, including seniors, are living alone, and far more seniors are apart from their families.

How do these changes in society affect seniors? What changes are necessary in Social Security and Medicare?

One thing is clear: the longer we live, and the more independent we are in old age, the less we must rely on Social Security and Medicare for support.

Social Security's creators never intended for older Americans to be as dependent on so-called entitlements, on transfers of income from other citizens, as they are today. Seniors were meant to have savings and investments and to have families who would care for them as they cared for their children. Government policies have made the "floor of protection" the only resource for many seniors.

Congress should ask: What can be done to promote *individual* responsibility for retirement? What can be done to empower people, through education and economic opportunity, to provide for themselves whenever possible? How can our entitlement programs be made more affordable to the hard-working taxpayers of this country? And how can they be reformed so that they continue to provide a safety net and more for generations to come?

The answers to those questions are the key to retirement security for the senior citizens of today, tomorrow, and the day after tomorrow.

Senator CRAIG. Our next panelist is Muriel Siebert, CEO of the New York investment firm of Muriel Siebert & Company and a pioneer in the world of finance.

Mickey, thank you for being with us this morning.

STATEMENT OF MURIEL F. SIEBERT, PRESIDENT AND CHAIRWOMAN, MURIEL SIEBERT & COMPANY, AND WOMEN'S FINANCIAL NETWORK AT SIEBERT, NEW YORK, NY

Ms. SIEBERT. Thank you for inviting me, Senator, to present my views before the Special Committee on Aging.

In addition to my written testimony, I would like to make a few points. In 1999, women drew an average monthly Social Security check of $8,364 a year versus $10,848 for men. That is a 30 percent difference, and that represents a real quality of life difference.

We cannot do much to change their former earnings, but we could pay for their prescriptions, possibly food stamps; we could help them consolidate their debt so if they have monthly payments, they could pay less; we could help them refinance their mortgages.

I think we could reach these people and tell them about programs through their Social Security monthly check, or on a website, or through a local library.

Most women in our country today work because they have to even though they are married. Their paycheck is necessary. Congress has created retirement vehicles to enable both working and nonworking spouses to have self-funding IRAs in addition to 401(k)s. But many people do not have the basic financial skills to take advantage of these programs.

Financial literacy is the key, and we must give people basic financial knowledge if they are to understand financial products which have become much more complicated today.

For example, a 45-year-old woman with $35,000 in an IRA or a 401(k), and let us assume she is going to work until she is 65 years old, which is 20 more years, sets aside $100 a month for 20 years. If she invested that in a bank at 3 percent, at 65, she would have $136,044. If she invested it in U.S. Treasuries at 5 percent, she would have at the same age $193,447. If she wanted to put it in the stock market and stocks continued to earn an average, as they have over the last 30 years, of 10 percent, she would have $332,417.

Now, there is a big difference between stocks and the first two, but Treasuries are certainly as secure as a bank deposit. So you can see that if she had the knowledge to buy Treasuries at 5 percent, she has 50 percent more money at the end of that period of time.

If a 25-year-old woman puts aside $100 a month for 40 years, and if it earns 10 percent, compounds at 10 percent, she will have $632,000 at age 65. People do not have this knowledge. It must be taught in school, and it must be made available at banks, on the website, at employers' places of business.

I learned about the lack of knowledge that women have. The first year I had a seat on the Stock Exchange, which was 1968, I think every woman who had been widowed and left money walked through my door. I could not say I was not in, because I had a two-room office, and if you opened the door, there I was. I could see they had absolutely no knowledge. They had portfolios which had the wrong stocks in them.

Similarly, every young woman looking for work on Wall Street walked through my door, and I learned that they did not have basic knowledge to qualify themselves for jobs on Wall Street.

I did a survey of every 4-year senior women's colleges. It was a 5- or 6-page survey, and we even counted home economies as a "Yes"—and 90 percent of the 4-year senior women's colleges did not have one course in personal finance. That is not right.

I learned about the lack of knowledge when I was Superintendent of Banks for the State of New York, where I served for 5 years. Besides regulating all the major foreign banks and big commercial banks and savings banks in New York, we regulated the check cashers and the licensed lenders. I can tell you in the case of the check cashers that people were using check cashers, paying an egregious amount of money, because they did not know how to use a checking account.

Similarly, licensed lenders, our credit card companies—nowhere do they state on their statements in simple, easy-to-understand language that if you meet the minimum payment that the front of the bill shows that is due, you will be paying for last night's pizza dinner for 15 to 25 years. That is reality.

I tried to tackle this when I was President of NYWA, the New York Women's Agenda, a coalition of 90 different Women's Organizations. I took my idea to the board, and we took it to the Department of Education in New York. It has taken 3 years, and my program, which teaches kids about credit cards and checking accounts, and the teachers added taxation to it, is now being enlarged. It has been tested, and in the fall, it will include basic financial tools like different kinds of mortgages, the kinds of tools that people in the workforce today need—regular people.

We tested it in two schools and each of the five burroughs, and then we paid to have teachers from the 40 enterprise schools trained, and now it will be citywide. This must be done on a national scale.

Anybody graduating from high school and entering the workforce should know about checking accounts, should know different kinds of bank accounts; they should be able to figure out if they should buy or lease a car. I am not talking about learning how to analyze stocks, but they should know about retirement. They should know the tax advantages of owning a house or contributing to an IRA.

I am talking about real things they need in real life.

You have a bankruptcy bill in front of you, and for the first time, if people who declare personal bankruptcy have money available, they are going to have to make a partial payment for the next I believe it is 5 years. They have to be told this in easy-to-understand language when they take out a credit card.

The language on the monthly statement is like the terms of Enron. They need plain easy to understand language that clearly states that if you pay the minimum, you are going to be paying for the purchases on your card or the balance for "x" number of years. If you want to pay it off over a period of one year, send "x" dollars—just plain, simple language.

We cannot stop people from overextending themselves, but it is our duty to get them information so they understand what they are doing. In that way, they can only blame it on themselves.

I think that the basic financial terms must be inserted, in plain, easy-to-understand language, the same way that we are going to be doing it in indentures of bonds so that investors can understand it, and in quarterly earnings reports. It is just as important.

If it is decided—and I am in favor of privatizing a portion of Social Security—I would like to suggest that individuals not be able to pick individual stocks. My reason is that people who know the least will lose the most. I would like to see them invest in a choice of index funds.

I would also recommend—and I believe in it extremely strongly—that the Government under no circumstances should vote the proxies, because Government should not control private industry. I would like to see the Government's votes "neutralized." If the outside voters are voting 80–20, the proxies controlled by Government or Government agencies should vote 80–20.

I thank you for inviting me to testify.

Senator CRAIG. Thank you very much for that insight and the obvious experience that you bring to this committee.

[The prepared statement of Ms. Siebert follows:]

Testimony
of
Muriel F. Siebert
Chairman and President, Muriel Siebert & Co., Inc.
Before the Special Committee On Aging
May 23, 2002

Good morning Mr. Chairman. Thank you for inviting me to participate today. The topic of women and retirement has been a personal priority of mine for a long time.

My interest dates back to 1967 when I made the New York Stock Exchange co-ed. Women would stop by my office and ask me to help them with their finances. They had no knowledge on how to make financial decisions or choose an advisor to help them. Young women entering the work force from college and seeking a career on Wall Street would ask me how they could learn about personal finance and investments. These exchanges concerned me and so I conducted a survey of every senior, 4-year women's college to see why so many females appeared financially illiterate. I found that 90% of the schools surveyed didn't have one course on managing money even when home economics was counted as a course. The typical explanation for this was that money was not a proper subject for ladies.

Later on in 1982, when I was Superintendent of Banks for New York State, we regulated banks with trust departments. These banks had many female clients that relied on the trust departments to help them generate sufficient income from their savings to cover living expenses. We received complaints from women because unbeknownst to them there were times when their monthly checks also consisted of principal. This happened when investment returns had not produced sufficient earnings. However, these women had no idea that when they spent their monthly check that they were eating into their principal. Some didn't learn what was going on until half their principal was gone.

Unfortunately, here we are in 2002 and we're still finding that women don't know how to manage their money. For the women I met 25 and 35 years ago, it's too late to do anything meaningful. They are out of time to accumulate or build their nest egg and they are struggling every month to make ends meet. The demographics tell us that unless we do something the problem will only get worse particularly as the baby boom generation reaches their senior years. That's why hearings like this, in my opinion, are so important. I applaud the Committee for recognizing the problem and for considering it a national issue worthy of Congressional attention.

As I see it the problem has several causes. Increasing longevity is a factor. Women live longer than men. What's more, they are twice as likely as men to end up in nursing homes and find themselves with all the attendant costs that go with that kind of care. A third factor, they earn 75% of what men earn. And finally, family responsibilities oftentimes interrupt their work lives reducing their social security and private pension benefits.

The problem now impacts women at every stage of life. As I explained, we have a generation of women who have no experience or knowledge on how to manage their finances and no opportunities to acquire such knowledge. They will need assistance from social service agencies and the government to survive. We have another generation of women who are currently in the work force, building their own pensions and 401Ks. It's likely they'll work longer than previous generations acquiring valuable skills and remaining employable for more years. They still have time to develop a financial plan and implement it, if we educate them.

Today nearly 50% of all investable assets are held by women. Over the past two years, the number of women investors with principal of at least one hundred thousand dollars has increased from 36% to 47%. The country has made strides in creating opportunities for women to acquire financial assets. Now we must make it possible for them to get the education they need to manage their assets.

You have asked me here to offer investment strategies for women facing retirement. I believe it will take a concerted effort by the federal government, the Social Security system, the educational system, the financial services industry, and senior citizen advocacy groups to address the problem.

As I see it, a key component to the strategy is delivering financial education. Investment strategies are meaningless if the woman doesn't understand what asset allocation is. How can we help a woman manage her 401K if she doesn't know what a mutual fund is or how to choose one because she doesn't understand the different styles of fund management? How can a woman be expected to plan for retirement when she may not know how to manage her day-to-day finances? Regardless of what stage of life the woman is in, financial knowledge must be the foundation upon which she builds her retirement strategy.

For women currently in retirement, financial education must give them the information that enables them to maximize their return on whatever savings they've accumulated. For those older women who have no savings financial instruction must show them how to construct and implement a realistic budget, protect themselves from inappropriate investment ideas and help them re-evaluate their basic banking strategy.

For example education can enlighten women to the fact that they have the following options:

- With today's lower interest rates, they can refinance their home mortgage and thus reduce a major monthly expense
- If they hold credit card debt, they can switch to a card with a lower rate of interest and thus pay off their debt more quickly by simply maintaining the size of their monthly payment.
- If they have a 401K plan the chances are they have investment options ranging from conservative to aggressive. With knowledge a woman would be able to choose an appropriate mix of conservative and less conservative investments designed to meet their financial needs.

For women currently in their mid-years, the financial education must concentrate on preparing women for retirement. These women should be taught to be active participants in the management of their 401K and IRA accounts. They should be taught how to shop for a financial service provider and to discriminate between what's appropriate and inappropriate for them. Finally these women can be taught how to manage their credit and keep debt levels under control in order to maintain a healthy viable financial profile.

Consider the following. A 45 year old woman with $50,000 in savings is considering one of three alternatives for her nest egg: a money market fund earning 3% a year, an intermediate bond fund earning 5% a year and a long-term bond fund earning 8% a year. Her ability to make an informed decision is the difference between accumulating $91,038; $135,632 and $246,340, respectively, by age 65. With a little knowledge she can increase the size of her nest egg by almost 500%.

Now imagine the scenario if financial education is started earlier, like with our young adults in high school and college who have 40 years to save. We will have equipped this generation with the tools needed to build equity not only for retirement, but for their entire lives.

I have been on a personal mission to make financial education a mandatory part of our public education system for the past several years. This goal is so important to me that I joined forces with the New York City Board of Education and sponsored the development of a curriculum, the Personal Finance Program, for the City's high schools. The Program is designed to teach basic personal financial management concepts to high school students. Originally, I planned to develop a program that focused solely on managing a checking account and understanding credit card use. Taxation was added because New York City teachers reported that some working high school students complained money was being stolen from their weekly paychecks. They had no knowledge of withholding taxes or social security.

Ultimately, I would like to see this kind of program implemented with a multi-generational objective. I hope to create programs where parents, particularly mothers and grandmothers, are invited to join their children in the learning experience. The family can then be made a venue for an active learning experience in which both children and adults participate in making sound financial decisions.

For women in retirement and those in the planning stages, I recently launched the Women's Financial Network (WFN). WFN was designed to empower women to make more informed financial decisions. It provides high-integrity financial information, tools, and financial products needed to transact responsibly. WFN has something for women of all life stages. It includes special sections on dealing with the personal financial implications of divorce, retirement for women and widowhood.

With the tools that knowledge can provide, women will be in a position to utilize all of the potential solutions the Federal government can create. For example, I support all legislation that creates opportunities for women to have their own resources. The spousal IRA provisions that are now a part of the tax code are the kinds of steps we need to take to ensure that both partners in the marriage are provided for. We must do more.

When this country examines pay equity issues between men and women, it must also consider the implications of such discrepancies for social security. In 1999, according to the Social

Security Administration, women drew an average of $697 a month, or $8,364 a year. Men received an average of $904 per month, or $10,848 a year. That's a 23% differential. It's also the difference between living above the poverty line, which was $8,000 in 1999, or right at it.

Regarding Social Security, I support proposals that would enable people to invest a portion of their social security funds. However, I also want the record to note that with the pursuit of higher returns comes greater risk. Thus, I do not believe that individuals should be allowed to choose their own stocks. We cannot create a system where the people who can least afford to risk money will loose the most simply because they don't have the same knowledge. Individuals that opt to invest a portion of the social security account should be limited to a choice of index funds. An individual that sets aside $100 per month over a 40 year work life accumulates a nest egg of $1,176,477 by investing in a stock index fund that realizes the 12% historical return of the stock market for the past 30 years .

I would caution however, that any privatization proposal should include restrictions that maintain the integrity of our financial system. Under a privatized Social Security investment program, the government must never be allowed to vote the proxies or shares held by the Social Security system. At most, the government must be required to vote shares in line with the non Social Security stockholders.

The government must also support a national effort, possibly with a study on ways to provide the means for older women to gain financial knowledge. Some options might include:

- **Providing incentives for the private sector to sponsor financial literacy programs for employees and retirees.**
- **Encouraging pro bono financial programs by financial planners and financial advisors through a certificate of merit or tax incentive initiatives.**
- **Working through the state colleges and universities, to bring seminars to local communities.**
- **Holding financial seminars at local Social Security offices. Announce these seminars in routine mailings and provide easy to register forms that encourage women to attend a seminar near their homes.**

Thank you.

Senator CRAIG. Now we welcome Ms. Laurie Young, Executive Director of the Older Women's League, a leading voice of concern for the needs of older American women.

Welcome to the committee. Please proceed.

STATEMENT OF LAURIE YOUNG, EXECUTIVE DIRECTOR, OLDER WOMEN'S LEAGUE, WASHINGTON, DC

Ms. YOUNG. Thank you, Senator Craig.

I want to thank you for your invitation to testify today as Executive Director of the Older Women's League, or OWL, as we are known, the only national grassroots membership organization dedicated exclusively to the unique concerns of women as we age. I can assure you that our members have a very personal stake in this issue.

My testimony today is a call to both policymakers and individual women. Members of Congress and private industry must improve our Nation's retirement system to truly reflect women's work, life, and retirement realities. On an individual level, women can do more to prepare for their own retirement.

It is vital, however, that we remember that one part must flow from the other. Without a viable retirement system that we have equal access to, the efforts of most women to amply or even adequately fund their golden years will be in vain.

Here are the challenges that we face. Reality one—women earn less. Women still earn only 73 percent of what men earn. Over a lifetime, this wage gap adds up to an average of $250,000 less in earnings for a woman to invest in her retirement. We must remember this glaring reality of the wage gap when we ask women to save more for their retirement. You cannot save what you do not earn.

Reality two—women are America's caregivers, and we pay for it in retirement. Caregivers often take more flexible, lower-wage jobs, with few benefits, or stop working altogether. Women spend on average 12 years out of the workforce for family caregiving over the course of their lives. This translates into an average loss of $550,000 in lifetime wage wealth.

Most women do not have income from pensions or savings. The flexible jobs that allow women to be caregivers are usually low-wage work with little pension coverage. Women make up about two-thirds of the part-time labor force. Women live longer. We live an average of 6 years longer than men, and this means that older women are more likely to be single, living alone, and facing inflation's erosion of their money's value.

The result is that women are poorer than men in retirement. Our poverty rate is almost twice that of men. Without Social Security benefits, over half of older women would be poor.

Given these harsh realities, OWL offers simple policy recommendations. First, enact pay equity legislation. Women will not be able to save as much for retirement until they earn as much as men.

Improve women's access to pensions. Our written testimony details changes to the pension system which should be encouraged.

Women should not be penalized for caregiving, yet this happens again and again in America today. Our written testimony also offers several suggestions to prevent caregiving from jeopardizing women's retirement security.

We need to improve Social Security for women. While this hearing is not focused on the third leg of retirement planning, that of Social Security, I would be remiss in not mentioning that it is a critical role in women's lives. Recommendations to strengthen the current Social Security system for women can be found in OWL's 2002 Mother's Day Report.

While we first and foremost urge women to petition their elected officials and employers to change pension and savings systems, OWL also offers advice on how women can improve their own retirement prospects. Based on OWL's successful "The Color of Money: Retirement for Women of Diverse Communities" campaign, we offer the following advice.

Women should become financially literate. It is critical for women to consider every opportunity for retirement saving. If married, a woman needs to make her marriage a true financial partnership by becoming a full participant in all decisions. Historical patterns and social customs often encourage women to put others first, and then, women are left alone to take care of themselves in old age.

Start early. Saving and investing as early as possible is the best approach, and that is why OWL's public education campaign goes beyond our usual audience of midlife and older women to reach younger women.

Learn about your employer's pension plans—and maximize all employer contributions. If you do not do this, it is like turning down a raise.

Contribute to an individual retirement account. Whether in the paid labor workforce or not, you can and should if possible contribute up to $3,000 annually to an IRA in your own name.

Investigate the exact amount of future Social Security benefits. Three months before your birthday, the SSA will send you an annual statement. Use it in your retirement planning calculations.

Carefully consider how your job choices affect your retirement. When considering a change, look for a job with a good pension plan, and if you are 3 months away from full vesting, consider the financial impact of changing your job at that time. Preserve lump sum distributions for retirement. Retain and do not spend any lump sum distributions received upon leaving an employer. The penalties are severe, and most women will need this money in retirement.

In conclusion, women have been balancing on a one-legged stool for some time now. Many younger women assume that these problems are problems of the past and believe that their lives will be different. They will not.

However, almost two-thirds of women today have the same kinds of pink-collar jobs that women have traditionally held—sales, clerical and retail—low-wage positions that frequently offer no retirement benefits.

If this Nation's private pension system is reformed to better reflect women's work realities, if Social Security is strengthened for women in the ways that OWL suggests, and if women educate each other about what they need to do to plan for retirement, then, women's three-legged stool might actually become well-balanced, sturdy, and reliable.

I want to thank you today for including OWL in this conversation and for taking the lead in creating the debate.

Thank you.

[The prepared statement of Ms. Young follows:]

OWL

THE VOICE OF MIDLIFE AND OLDER WOMEN

Settling for Silver in the Golden Years

A Hearing of

U.S. Senate Special Committee on Aging

U.S. Senate
May 23, 2002

Testimony of Laurie Young, Ph.D.
Executive Director
Older Women's League

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Chairman Breaux, Senator Craig, and distinguished Members of the Committee:

I appreciate your invitation to testify today on this critical issue of women's economic security in retirement. As the executive director of the Older Women's League (OWL), the only national grassroots membership organization dedicated exclusively to the unique concerns of women as they age, I can assure you that our members have a very personal stake in the issue of women's retirement security.

OWL commends you for your interest in older women's economic security and how it can be improved—by policymakers and by individual women. My testimony today is a call to both of these groups. OWL offers several ways that Members of Congress, private industry, and other leaders can improve our nation's retirement system to truly reflect women's work, life, and retirement realities. On an individual level, women can be doing more to prepare for their own retirement, and this testimony includes suggestions for the millions of American women seeking guidance, information, and motivation.

It is vital, however, that we remember that one flows from the other. Without a viable retirement system that they have equal access to, the efforts of most women to amply, or even adequately, fund their "golden years" will be in vain.

So before we address what policymakers and individual women can do more of, it's imperative that we have a clear picture of women's life, work, and retirement realities.

Women's Realities and Retirement Consequences

OWL has twice testified before this Committee, primarily about women as America's caregivers, so some of our words may sound familiar. We ask your indulgence to listen once again; until the reasons for women's retirement insecurity are acknowledged and clearly understood by all decision makers, appropriate remedies cannot be prescribed.

Women's experience of growing old in America is very different from men's. The financial problems women often face in old age are extensions of the problems and choices they faced earlier in their lives. Race and ethnicity, family and work arrangements, and economic resources are the primary influences on the quality of older women's retirement. For women, poverty in old age is often rooted in the realities that shaped their lives early on: the reality of the wage gap, the reality of caregiving, and the reality of flexible jobs that offer few benefits, especially pensions.

There are four realities of women's lives that translate directly into reduced income and compromised economic security in retirement.

1. Women earn less.

The economic chasm that is evident between women and men during their work lives grows much larger during retirement years. Almost 40 years after the Equal Pay Act was passed, women still earn only 73 percent of what men earn.[1] And the pay gap only increases with age.

For workers ages 45-54 (a peak earning period), women's earnings are only 71 percent of men's, and among workers ages 55-64, women earn only 68 percent of what men earn.[2] The impact of the wage gap extends far beyond the years women participate in the work force. As they enter retirement, women experience the impact of unequal pay to an even greater degree. Over a lifetime, the wage gap adds up to an average of about $250,000 less in earnings for a woman to invest in her retirement.[3]

The wage gap affects all women, but it affects women of color the most. African American women experience some of the harshest pay inequities: they earn only 65 percent of what white men earn.[4] Over a 35-year career, that's $420,000 less to save or invest for retirement.[5] For Latinas, it's even worse: they earn a dismal 55 percent of what white men earn.[6] Over a 30-year career, that's $510,000 less to save or invest.[7] The wage gap ensures that the average woman will consistently have a lower retirement income than the average man. And for the average woman, in particular for a woman of color, the wage gap ensures that she will depend on Social Security much more.

Even a progressive system like Social Security cannot entirely offset the impact of wage discrimination. Social Security benefits are wage-based, and women's continuing lower earnings, combined with time out of the work force for caregiving, translate into lower retirement benefits. In fact, in 2001, women's average monthly Social Security benefits were $756, compared to average monthly benefits of $985 for men.[8] For all women, the wage gap undermines economic security at each stage of life.

We must remember the glaring reality of the wage gap when we ask women to save more for their retirement. As OWL often says: You can't save what you don't earn.

2. Women are America's caregivers, and they pay for it in retirement.

Today in America, as many as 52 million Americans, or 31 percent of the adult population, are informal caregivers, providing unpaid care and financial support to people with chronic illness or disabilities.[9] This is an irreplaceable source of long-term care and support in America, and by and large, it is "women's work." Across the generations, it is women who act as informal caregivers for parents, children, friends, spouses, and partners. Unfortunately, they often pay a steep personal price for the care they provide. Women's health, earnings, and retirement security are put at risk by informal caregiving, and increasingly so the longer they provide care.

Nearly three-quarters of informal caregivers for seniors are women.[10] The typical informal caregiver for an elder is a married woman in her mid-forties to mid-fifties. She is employed full-time and also spends an average of 18 hours per week on caregiving.[11] In addition to juggling her career with caring for a parent, partner, or spouse, she may be the primary caregiver for her children and, increasingly, for her grandchildren as well. In fact, many women are a part of the "sandwich generation," caring for children at home in addition to older family members. Others who care for a partner or older relative, a child, or a grandchild may also be caught in the "club sandwich generation," with three or more layers of caregiving responsibilities.

Race makes a difference when it comes to informal caregiving, too. Women of all races and ethnicities juggle their jobs and caregiving roles, but caregiving has an even greater impact on African American women and Latinas, who earn much less and often care for more people. In fact, more than half of African American caregivers find themselves "sandwiched" between caring for an older person and a younger person, compared with 20 to 40 percent of the general population.[12] Latinas are also likely to be caring for more than one person. More than half of all Latino/a caregivers to elders also have a child age 18 or younger living at home.[13]

Caregiving can be an economic disaster for women and is one of the largest barriers to their retirement security. Caregiving shapes women's work force participation, as they often take more flexible, lower-wage jobs with few benefits, or stop working altogether in order to provide unpaid caregiving services. In fact, women spend, on average, 12 years out of the work force for family caregiving over the course of their lives—whether for children, a spouse, and/or parents.[14] Time out of the work force diminishes their earning power even beyond the impact of the wage gap. The sacrifices caregivers routinely make during midlife—a peak earning period—reduce lifetime earnings and retirement savings. As a result of caregiving, women lose an average of $550,000 in lifetime wage wealth and about $2,100 annually in already desperately needed Social Security benefits.[15]

3. Most women don't have income from pensions or savings.

The flexible jobs that allow women to be caregivers are usually low-wage work with few, if any, benefits, especially pensions. In order to balance the demands of family and financial need, many women have no other option but to seek part-time employment. Women make up about two-thirds of the part-time labor force, working in jobs that offer little, if any, pension coverage.[16] Twenty-five percent of all female workers work part-time, compared to 10 percent of male workers.[17] And women are much more likely to work part-time during peak earning years: from age 45 to 54, women are about twice as likely to have part-time employment compared with men in the same age group.[18]

Part-time work is an enormous obstacle to women's achieving pension and savings parity with men. Part-time employment doesn't just mean working less; it means getting paid less for your work. In general, hourly wages for part-time workers are significantly lower compared with full-time counterparts. Women who work part-time earn an average of 20 percent less per hour than women who work full-time with comparable backgrounds.[19]

Because women often work part-time and dominate the industries (e.g., service sector) that generally offer low-wage, part-time work, they are much less likely to have access to a pension. Only 21 percent of part-time workers have access to their employer's pension plan.[20]

Even women who work full-time aren't always offered pension plans at their jobs. In rates of pension coverage, which don't necessarily translate into vested retirement income, Latinas fare the worst. In fact, only 26 percent of Latinas have pension coverage, compared to 39 percent of both African American and white women.[21]

Women also change jobs more frequently than men, making vesting in a pension more difficult.[22] Although federal law was changed in 2001 to lower vesting requirements from five to three years in some defined contribution plans (e.g., 401(k)s), many women will still not work long enough at a job to vest in and benefit from an employer's pension plan. Older women are less likely than older men to receive pension income (28 percent to 43 percent);[23] when they do, the benefit is only about half the benefit men receive.[24]

When it comes to savings, women don't fare well in general. The hard reality is that many women live paycheck to paycheck, and little or nothing is left to invest for the future. In fact, women's lower wages prevent them from preparing adequately for retirement. You can't save what you don't earn, and the impact of wage discrimination doesn't end when the job does. While most women struggle to save for retirement, women of color have even greater income losses. Only 24 percent of older African American women and 26 percent of older Hispanic women have income from savings or assets.[25]

By all accounts, women will continue to be segregated in low-paying occupations. The work patterns of today's young women are also likely to follow the same course as their mothers' in the baby boom generation—with periods of paid work interspersed with time taken off for caregiving. It is an unfortunate reality that most of these young women can expect to do the same low-paying work as their mothers and, when they retire, face the same financial struggles. The concentration of women in lower-paying jobs with few benefits will continue to reduce the financial security of older women, resulting in continued over-reliance on Social Security.

4. Women live longer.

Women live an average of six years longer than men.[26] A longer life expectancy affects all aspects of an older woman's life, especially in relation to retirement income. Most older Americans live on "fixed" incomes; except for their inflation-protected Social Security benefits, their monthly income will not increase in the future. Over time, inflation erodes the purchasing power of the dollar, making it increasingly difficult to make ends meet. Women's longer lifespans, combined with their lower retirement income, make them more vulnerable to the impact of inflation.

Life expectancy also has a direct effect on women's marital status, which in turn impacts women's financial security. Marital status is one of the most important factors in determining economic independence and support in old age. Over half of older women are single, whether widowed (45 percent), divorced or separated (8 percent), or never married (3.6 percent). In contrast, only 26 percent of older men are unmarried.[27] Women are four times more likely to lose their spouse than men.[28] Seven in ten "baby boom" women can expect to live as widows for 15 to 20 years.[29]

Widowed women often live alone. Of the more than 9 million older persons living alone in the United States, 80 percent are women.[30] Women living alone face increased economic hardships and social isolation, which has a devastating impact on their overall welfare and their financial security in particular. As single householders, women living alone have more expenses and fewer resources to live comfortably in old age.

More than half of elderly widows now living in poverty were not poor before the death of their husbands.[31] Compared to 4.4 percent of married elderly women, 20.3 percent of divorced, 16.5 percent of widowed, and 23.1 percent of never-married elderly women are living in poverty. For women of color, these poverty rates are even more severe. Forty-two percent of divorced, 34.1 percent of widowed, and 38 percent of never-married African American women live in poverty, while 30.8 percent of divorced and 31.2 percent of widowed Latinas live in poverty. Comparatively, 20.2 percent of divorced, 14.7 percent of widowed, and 21.9 percent of never-married white women are living in poverty.[32] The longer women live, the harder it becomes to financially support their growing needs.

Result: Women are poorer than men in retirement.
Overall, women are far more likely to live in poverty than men, but this is especially true for women as they age. As women get older, they often get poorer. With a poverty rate of 12.2 percent (compared to 7.5 percent for men), women over age 65 account for more than 70 percent of older adults living in poverty.[33] Women of color are more likely to be poor in retirement: 20 percent of Latinas and 26 percent of African American women over age 65 live in poverty, compared to 11 percent of white women.[34] For women, the risk of poverty in old age is all too real. That's why Social Security is so critical—women need the guarantee it provides. *Without it, over half of older women would be poor.*[35] In 1999, women accounted for three out of every five older persons lifted out of poverty by Social Security.[36]

The challenges women face and the decisions they make upon entering the work force have serious consequences for their economic well-being in old age. Simply put: non-entry or late entry into the job market, job interruptions, and temporary or part-time employment characterize most women's work histories.

Many younger women assume this is a problem of the past, and as more women enter the work force and have greater access to pensions and other benefits, many believe their lives in old age will be different. Almost two-thirds of women today, however, have the same kinds of "pink collar" jobs that women have traditionally held—sales, clerical, and retail—low-wage positions that frequently offer no benefits.[37] And they hold those jobs for the same reasons: the need to move in and out of the work force to care for families, partners, and friends.

Given these harsh realities, what then can be done to support women's goal of financial security in old age? OWL submits several policy recommendations to the Committee with the hope that Congress will take the lead in reforming our nation's retirement system to better reflect women's realities.

Public Policy Recommendations

1. ***Enact pay equity legislation.***

Raising women's wages is a pivotal and necessary policy step toward reducing women's financial instability in retirement. Women will not be able to save as much for retirement as men until they earn as much as men. Research consistently shows that pension coverage and income are associated with higher wages, so enactment of strong pay equity legislation would go a long way toward strengthening all three legs of women's retirement security stool.

2. *Improve women's access to pensions.*

Only 53 percent of working Americans have pension coverage (defined contribution and/or defined benefit plans), and coverage rates are lower for women and part-time workers. Although women's rates of *coverage* have increased in recent years, and are drawing close to the rates for men, women are less likely to have *income* from pensions in retirement (28 percent to men's rate of 43 percent).[38] When they do receive pension income, women, on average, receive 44 percent less than their male counterparts.[39]

There are many ways to improve women's access to and income from pensions, which must be done if women are to adequately prepare for their retirement. Starting points should include the following policy recommendations.

a) **Expand pension coverage to more workers.** While women's rates of coverage under retirement plans are growing closer to men's, roughly half of American workers have no retirement plan at work. We need to extend current and develop new types of retirement savings plans to reach more Americans.
b) **Extend pension coverage to part-time and temporary workers.** Part-time and temporary workers, who are more likely to be women, would be protected by reform legislation providing pension credits to all employees working 500 hours or more a year.
c) **Institute portability provisions in all pension plans.** Portability reform for both defined contribution and defined benefit pension plans would help workers who change jobs take their vested benefits with them to new plans or invest them in Individual Retirement Accounts.
d) **Educate employers about Simplified Employee Pensions (SEPs).** One way to expand pension coverage to more women is to encourage participation in existing systems. SEPs allow employers to contribute a percentage of an employee's salary to a defined contribution plan without administrative expenses or filing requirements, providing a viable alternative to more complicated pension plans. Women working for small firms, which are less likely to have retirement plans, could benefit if their employers adopted SEPs.
e) **Modify joint and survivor annuities.** Even though the Retirement Equity Act of 1984 (REA) required private pensions to pay survivor benefits unless a spouse waives this protection in writing, the widow typically receives only about two-fifths the amount received while her spouse was alive. Women would benefit from a reform requiring that either surviving spouse would receive a benefit equal to 75 percent of the benefit prior to the death of the spouse.
f) **Improve pension division upon divorce.** REA made it possible for pension plans to pay benefits directly to divorced spouses. However, state court judges still determine the amount a divorced woman will receive from her former spouse's pension. Women would benefit from a default option stipulating that pension benefits would be divided unless the couple agrees otherwise in its separation agreement, or unless a court order specifies that the benefits would not be divided.

g) **Eliminate defined benefit pension integration.** Elimination of pension integration (when an employer subtracts part of a worker's Social Security benefit from her pension benefit) in defined benefit plans would improve the retirement security of some women.
h) **Institute cost-of-living adjustments in defined benefit plans.** Because defined benefit pension plans are rarely indexed for inflation, the value of benefits erodes after retirement. The impact of inflation is especially harsh for women, who typically live longer than men. Requiring employers to offer an indexed pension option would help correct this imbalance.

3. *Women should not be penalized for caregiving.*

This happens again and again in America today, because our employment policies and pension rules fail to reflect women's invaluable unpaid contribution of caregiving for children, elders, spouses, and friends. The following recommendations are only a starting point, but would go a long way toward recognizing the fact that women still provide vastly more unpaid caregiving services than men. Such recognition would help to prevent caregiving from jeopardizing women's retirement security.

a) **Provide caregiving credits under Social Security.** There are several ways to help ensure that benefits are not reduced in retirement due to unpaid caregiving during working years. One approach is to disregard up to five years of lower income when calculating Social Security retirement benefits; another is to give caregivers credits toward their Social Security earnings record.
b) **Expand the Family and Medical Leave Act (FMLA).** Just as current FMLA law makes mandatory the continuation of health benefits during a covered leave period, so should the FMLA be expanded to require continued employer contributions to qualified retirement plans during a covered leave period as well.
c) **Count caregiving leave time toward vesting requirements.** Women's vesting rates are consistently lower than men's,[40] another factor contributing to their reduced pension income in retirement. Leave time under the FMLA should count as service time and should accrue to help meet any pension vesting requirements.
d) **Expand pension coverage to part-time workers.** Many caregivers seek flexible or part-time jobs and would be greatly assisted by such a policy. Employers should not be allowed to exclude part-time and temporary workers from pension benefits or contributions, as the law now permits.

4. Improve Social Security for women.

While this hearing is focused primarily on only two of the three legs of women's retirement planning stool—pensions and personal savings/investments—it would be a grave oversight to discuss how women's economic security in retirement can be improved without recognizing the role of Social Security. OWL urges Congress to amend the Social Security system to recognize women's caregiving work; increase benefits and simplify the rules for widows, divorced women, and low-wage workers; offer coverage to same-sex couples; and remedy the Government Pension Offset and Windfall Elimination Provision's effect on women. Details on these recommendations to strengthen the current Social Security system for women can be found in OWL's 2002 Mother's Day report, *Social Security Privatization: A False Promise for Women*, pages 44-48.

These recommendations, if implemented, would go a long way to improving women's retirement security. If Social Security is strengthened for women in the ways OWL suggests, and if this nation's private pension system is reformed to better reflect women's work realities, women's three-legged stool might actually become well-balanced, sturdy, and reliable.

Strategies for a Secure Retirement—Tips for Women

While we first and foremost urge women to petition their elected officials and employers to implement the recommendations listed above, OWL also offers advice on how women can improve their retirement prospects.

OWL has a major grassroots project, entitled *The Color of Money: Retirement for Women of Diverse Communities*, which is a public education and media campaign designed to build greater understanding of America's retirement system and women's stake in the discussion to reform it. The campaign specifically encourages dialogues with African American women and Latinas about their significant vulnerability to retirement insecurity. Funded by the Retirement Research Foundation, the project trains OWL chapters to hold community conversations across the country to address retirement security issues facing women of diverse communities, with a special emphasis on younger women.

The following recommendations are excerpted from "*The Color of Money* Primer IV: Strategies for a Secure Retirement," the entirety of which is enclosed with this testimony.

> Women need to start planning for their retirement when they first enter the labor market. Although young women are not usually encouraged to make long-term financial plans, the choices women make about work and family early in their lives often have serious consequences when they enter retirement. Here are a number of actions that individual women can take to enhance their retirement security.
>
> **1. Become financially literate.** It is crucial for women to learn how Social Security works and understand its primary and unique role in their retirement future. Knowledge of various investment instruments such as annuities, 401(k)s, and Individual Retirement Accounts (IRA) is critical. If married, a woman needs to make her marriage a true financial partnership by becoming a full participant in all savings and retirement decisions.
>
> *Educate Yourself*
> Sometimes it's hard to know where to start, but putting off getting your finances in order only makes things much harder in the end. You'll likely be surprised by how easy it is to find the answers to your questions: local libraries have a wealth of information on financial planning (look under the topics of personal finance,

household budgeting, retirement planning, and investing), and the Internet offers many helpful articles and calculators. In many communities, it's not difficult to find free or low-cost seminars in financial planning for women, or a nonprofit credit counseling service, or other self-help resources published by nonprofit groups. For-profit financial services companies of all kinds (banks, mutual fund companies, insurance agents, stock brokers, and financial advisors) also offer helpful booklets on investing basics—just remember to use your consumer savvy to distinguish a commercial pitch from general knowledge sharing.

Set Goals

Once you take control of one aspect of your finances (for example, learning how to reduce credit card debt), you'll realize you can tackle the next hurdle, such as opening an IRA. Every woman is in a different situation, so you'll need to spend a little time figuring out what your goals are.

Each woman has unique financial needs given her life, family, and work circumstances. The common denominator is that every woman—including you—can take charge of her finances by educating herself on the basics and then setting goals.

Pay Yourself First

It's amazing how few women do this. Historical patterns and social customs often encourage women to put others first, but then women are left alone to take care of themselves in old age. Eighty percent of seniors living alone are women,[41] and women make up two-thirds of nursing home residents.[42]

Break this mentality and be sure to pay yourself first. Before your paycheck gets eaten up by the usual expenses, make your own financial security a top priority and put aside a set amount in a savings account, money market account, IRA, or other savings or investment vehicle. Many banks and other financial institutions will let you have the money automatically withdrawn from your paycheck or checking account every month, making it a bit easier to stay disciplined.

2. Start early. Saving and investing as early as possible is the best approach. Presuming a 7 percent return on her investments, a woman would need to save $9.65 a week at age 25—the equivalent of a movie and popcorn—but $334.50 a week at age 60 in order to achieve the same $100,000 retirement fund by age 65.[43]

3. Learn about your employer's pension plans. Ask whether your employer offers a pension plan, and what the eligibility requirements are. If your employer has a *defined benefit* plan, find out how and when you can sign up, at what age you can retire, and what the reductions for early retirement might be. If the employer offers a *defined contribution* plan, it is important for you to sign up and contribute as much as you can afford. In plans where the employer contributes a set amount or makes a matching contribution, it's vital that you know the rules that allow you to maximize this employer contribution—if you don't, it's almost like turning down a raise. If the defined contribution plan offers a choice of investments, think carefully about the potential risks and rewards of different investment options. Do a little research about investing, get your questions answered by your plan's administrator, and make choices that make sense for you.

4. Contribute to an Individual Retirement Account. Whether in the paid labor force or not, you can—and should, if possible—contribute up to $3,000 annually to an Individual Retirement Account (IRA) in your own name. An IRA is a type of retirement savings plan where the federal government, in exchange for limited access to your cash, offers you various types of tax advantages. Most IRAs require you to wait until age 59 ½ to begin withdrawing your money without penalty,[44] but there are tax benefits to encourage you to save.

In 2002 through 2004, the maximum contribution to all types of IRAs (combined) is $3,000 a year; this will rise to $4,000 in 2005. If you're over 50 years of age, there are new "catch-up" provisions that allow you to add more to your IRA. If at all possible, maximize your IRA contribution—but even if you only have $500 to put away this year, go ahead and get started. Most financial institutions offering IRAs have very low minimum contributions to open an account.

All types of financial institutions offer IRAs—your local bank, a mutual fund company, an online brokerage—so it's up to you to decide what type of investment you want first, then find someone who offers it.

5. Investigate the exact amount of future Social Security benefits. The Social Security Administration (SSA) sends everyone over 25 years of age an annual statement, typically mailed three months before your birthday. This tool can help confirm that SSA has an accurate wage history for you, as well as show you what your expected benefits would be at different potential retirement ages. (See SSA's web site at *www.ssa.gov/women/* for more information.) This information will be extremely helpful as you chart a course toward retirement security.

6. Carefully consider the impact of labor market decisions on retirement income. In general, the longer you remain on the job, the more your defined benefit and defined contribution plans accumulate in value—presuming you have a pension plan at your job. When considering a job change, it is important to find out whether a prospective employer offers a pension plan, and how that pension plan stacks up next to that of your present employer. It is also important to consider how such a move could impact current pension benefits. If you are three months away from vesting in a pension plan, you should consider what resigning and losing that benefit could mean for your retirement.

Don't forget that your workforce decisions affect Social Security, too. Your Social Security retirement benefits are based on your highest 35 years of earnings, but women's median participation in the workforce is 32 years, as compared with 44 years for men.[45] This time out for caregiving dramatically impacts a woman's future Social Security benefits: It translates into $2,100 less in annual retirement benefits.[46]

7. Preserve lump sum distributions for retirement. If at all possible, you need to retain, not spend, any lump sum distributions received upon terminating with an employer. The penalties are severe for spending lump sum distributions (up to 20 percent penalties in addition to regular income taxes), and most women will need this money in retirement. When you leave an employer, investigate options for preserving lump sum distributions—which may include keeping the accumulation in a former employer's plan, rolling over the lump sum payment into the pension plan of a new employer, or rolling it over into another tax-advantaged savings vehicle such as an IRA.

Conclusion

A popular planning mechanism for retirement savings is the three-legged stool. The three legs (Social Security, pensions, and personal savings/investments) are supposed to not only give a worker three sources of retirement income, but to create a balance of risk, so that the employer, the worker, and the government all bear a share of the risk.

Women have been balancing on a one-legged stool for some time now. The personal savings/investment leg is wobbly or non-existent for most women. The wage gap means women cannot save their way to parity with men; you simply can't save what you don't earn. Contrary to popular opinion, this situation is not improving for women.

Women also have low rates of pension coverage, so they can't rely on the pension leg. Classic defined benefit pensions are growing increasingly rare. The newer forms of employer-based pension plans are called defined contribution plans (for example, 401(k), 403(b), SEP-IRA, and profit-sharing). Defined contribution plans more than doubled in number from 1978 to 1998, while the number of defined benefit plans fell by half during the same 20-year period.[47]

While women have greater access to defined contribution plans, they must bear all the risk of those plans. For example, a worker with a defined benefit pension certainly contributes to her retirement plan, as does her employer, but she does not have to worry about the investment of those funds. The employer handles the long-term health of the program and promises the worker a set amount based on years of service, salary, and other factors. This provides a retiree with a dependable source of monthly income after her years of service.

The newer, increasingly popular, defined contribution plans allow workers and their employers to make tax-advantaged contributions to the plan, but the worker is the one who manages the account and maintains investment control over her money. There is no promise of investment return, and the worker bears all the responsibility for her portfolio's performance. It's up to the worker to convert the lump sum into an annuity in retirement, or find another way for the money to last for as long as she lives in retirement.

This persistent shift from defined benefit plans to defined contribution plans must be taken into consideration when looking at the three-legged stool and women's retirement security. Although there are arguments in favor of defined contribution plans (they are easier for companies to manage; more portable; more suited to changes in work force patterns; and popular with workers), there is no denying that they shift the risk from employer to worker.

A worker with a defined contribution pension plan is now bearing the risk for two of the three legs of the stool: pensions *and* personal savings. Given the popularity of the stock market, it's also likely that a majority of her defined contribution pension (401(k) plan) and personal savings (IRAs, mutual funds) is invested in the stock market.

The fact remains that only 53 percent of working Americans have any form of pension coverage.[48] The rest have only two legs of the stool to balance upon, making Social Security's steady income even more critical.

It's wise to save on your own and to contribute to a retirement plan at work, but that means you take on all the risk—the risk of investment performance, the risk that your savings will erode over time, the risk that you will outlive your assets. This new reality of increased worker responsibility for risk makes it all the more critical that Social Security's social insurance nature, with its guaranteed lifetime benefits, is preserved.

That said, it is equally critical that we rebuild the other two legs of the stool for women by reforming our nation's retirement system. Thank you for your interest in women's retirement security, and for encouraging discussion, debate, and public education on this vital issue.

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The Color of Money

Primer IV

Strategies for a Secure Retirement

The Color of Money primer series has presented a sobering account of women's prospects for economic security in retirement. Despite dramatic increases in female labor force participation, a host of factors continue to leave many women, including those who have worked for long periods of time, economically vulnerable late in life.

Women need to start planning for their retirement when they first enter the labor market. Although young women are not usually encouraged to make long-term financial plans, these primers show that the choices women make about work and family early in their lives often have serious consequences when they enter retirement.

Here are a number of actions that individual women can take to enhance their retirement security . . .

1. Become financially literate

It is crucial for women to learn how Social Security works and understand its primary and unique role in their retirement future. Knowledge of various investment instruments such as annuities, 401(k)s, and Individual Retirement Accounts (IRA) is critical. If married, a woman needs to make her marriage a true financial partnership by becoming a full participant in all savings and retirement decisions.

Educate Yourself Sometimes it's hard to know where to start, but putting off getting your finances in order only makes things much harder in the end. You'll likely be surprised by how easy it is to find the answers to your questions: local libraries have a wealth of information on financial planning (look under the topics of personal finance, household budgeting, retirement planning, and investing), and the Internet offers many helpful articles and calculators. In many communities, it's not difficult to find free or low-cost seminars in financial planning for women, or a nonprofit credit counseling service, or other self-help resources published by nonprofit groups. For-profit financial services companies of all kinds (banks, mutual fund companies, insurance agents, stock brokers, and financial advisors) also offer helpful booklets on investing basics—just remember to use your consumer savvy to distinguish a commercial pitch from general knowledge sharing.

Set Goals. Once you take control of one aspect of your finances (for example, learning how to reduce credit card debt), you'll realize you can tackle the next hurdle, such as opening an IRA. Every woman is in a different situation, so you'll need to spend a little time figuring out what your goals are.

Aisha is a 22-year-old woman in her first job who wants save more in her company's 401(k) plan. It is a challenge to find "extra" money when she's just starting out and retirement feels so far away, but investing early will allow her nest egg to grow much larger than if she waited even just a few years to start. Her goal may be to research the benefits of *compound interest* (see glossary) to understand more fully the tax advantages of a 401(k), and then to cut back on new DVD or clothes expenditures in order to increase her monthly contribution to her retirement plan.

THE COLOR OF MONEY: RETIREMENT FOR WOMEN OF DIVERSE COMMUNITIES is a public education and media campaign designed to build greater understanding of America's retirement system and women's stake in the discussion to reform it.

The campaign specifically encourages dialogues with African American women and Latinas about their significant vulnerability to retirement insecurity. Funded by the Retirement Research Foundation, this project will work with OWL chapters to hold community conversations across the country to address retirement security issues facing African American women and Latinas, with a special emphasis on younger women.

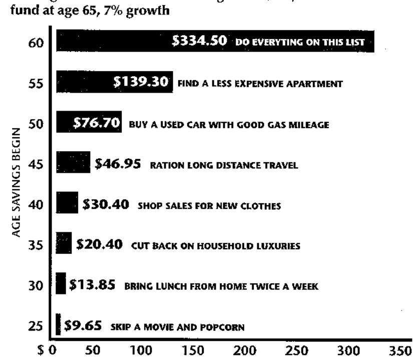
Maria is a 45-year-old, newly divorced woman who can't imagine being ready for her retirement, as she is struggling every month with overwhelming credit card bills. She wants to reduce her debt (nonprofit credit counseling services may help with this), save money to protect her family in an emergency (often called short-term savings), then look closely at her retirement savings needs and set out a plan to get there in the next 20 years.

These women, like so many others, have unique financial needs given their life, family, and work circumstances. The common denominator is that every woman—including you—can take charge of her finances by educating herself on the basics and then setting goals.

Pay Yourself First. It's amazing how few women do this. Historical patterns and social customs often encourage women to put others first, but then women are left alone to take care of themselves in old age. Eighty percent of seniors living alone are women,[1] and women make up two-thirds of nursing home residents.[2]

Break this mentality and be sure to pay yourself first. Before your paycheck gets eaten up by the usual expenses, make your own financial security a top priority and put aside a set amount in a savings account, money market account, IRA, or other savings or investment vehicle. Many banks and other financial institutions will

Getting from here to there: Savings for a $100,000 retirement fund at age 65, 7% growth



Source: Projections from 1999 Medicare Benefits Stimulation Model, Gibson and Foley, 2000.

Find the ans

let you have the money automatically withdrawn from your paycheck or checking account every month, making it a bit easier to stay disciplined.

2. Start early

Saving and investing as early as possible is the best approach. Presuming a 7 percent return on her investments, a woman would need to save $9.65 a week at age 25—the equivalent of a movie and popcorn—but $334.50 a week at age 60 in order to achieve the same $100,000 retirement fund by age 65 (see chart).[3]

3. Learn about your employer's pension plans

Ask whether your employer offers a pension plan, and what the eligibility requirements are. If your employer has a *defined benefit* plan (see glossary), find out how and when you can sign up, at what age you can retire, and what the reductions for early retirement might be. If the employer offers a *defined contribution* plan (see glossary), it is important for you to sign up and contribute as much as you can afford. In plans where the employer contributes a set amount or makes a matching contribution, it's vital that you know the rules that allow you to maximize this employer contribution—if you don't, it's almost like turning down a raise. If the defined contribution plan offers a choice of investments, think carefully about the potential risks and rewards of different investment options. Do a little research about investing, get your questions answered by your plan's administrator, and make choices that make sense for you.

4. Contribute to an Individual Retirement Account

Whether in the paid labor force or not, you can—and should, if possible—contribute up to $3,000 annually to an *Individual Retirement Account (IRA)* (see glossary) in your own name.

An IRA is a type of retirement savings plan where the federal government, in exchange for limited access to your cash, offers you various types of tax advantages. Most IRAs require you to wait until age 59 to begin withdrawing your money without penalty,[4] but there are tax benefits to encourage you to save.

In 2002 through 2004, the maximum contribution to all types of IRAs (combined) is $3,000 a year; this will rise to $4,000 in 2005. If you're over 50 years of age, there are new "catch-up" provisions that allow you to add more to your IRA. If at all possible, maximize your IRA contribution—but even if you only have $500 to put away this year, go ahead and get started. Most financial institutions offering IRAs have very low minimum contributions to open an account.

All types of financial institutions offer IRAs—your local bank, a mutual fund company, an online brokerage—so it's up to you to decide what type of investment you want first, then find someone who offers it. For example, young Aisha has a longer time horizon, so she may choose a more aggressive IRA vehicle, like a mutual fund made up of stocks. Maria may be more cautious and want a company that can offer a combination of investments for her IRA. As with all financial decisions, your individual needs and goals must be considered in deciding what investments will work best for you.

5. Investigate the exact amount of future Social Security benefits

The Social Security Administration (SSA) sends everyone over 25 years of age an annual statement, typically mailed three months before your birthday. This tool can help confirm that SSA has an accurate wage history for you, as well as show you what your expected benefits would be at different potential retirement ages. (See SSA's web site at *www.ssa.gov/women/* for more information.) This information will be extremely helpful as you chart a course toward retirement security.

6. Carefully consider the impact of labor market decisions on retirement income

In general, the longer you remain on the job, the more your defined benefit and defined contribution plans accumulate in value—presuming you have a pension plan at your job. When considering a job change, it is important to find out whether a prospective employer offers a pension plan, and how that pension plan stacks up next to that of your present employer. It is also important to consider how such a move could impact current pension benefits. If you are three months away from vesting in a pension plan, you should consider what resigning and losing that benefit could mean for your retirement.

Don't forget that your workforce decisions affect Social Security, too. Your Social Security retirement benefits are based on your highest 35 years of earnings, but women's median participation in the workforce is 29 years, as compared with 38 years for men.[5] This time out for caregiving dramatically impacts a woman's future Social Security benefits: It translates into $2,100 less in annual retirement benefits.[6]

7. Preserve lump sum distributions for retirement

If at all possible, you need to retain, not spend, any *lump sum distributions* (see glossary) received upon terminating with an employer. The penalties are severe for spending lump sum distributions (up to 20 percent penalties in addition to regular income taxes), and most women will need this money in retirement. When you leave an employer, investigate options for preserving lump sum distributions—which may include keeping the accumulation in a former employer's plan, rolling over the lump sum payment into the pension plan of a new employer, or rolling it over into another tax-advantaged savings vehicle such as an IRA.

wers to your questions.

Glossary of Italicized Terms

Defined Benefit Pension: Often thought of as "old-fashioned" pension plans, a defined benefit system means that the employer bears the risk for your retirement plan. Subject to certain rules, such as length of service to the company, a worker is promised a set monthly benefit when she retires.

Defined Contribution Pension: These pension plans gained popularity in the 1990s and now cover more American workers than their defined benefit ancestors. You may know them by various names, such as 401(k), 403(b), 457, SEP-IRA, SIMPLE IRA, profit-sharing or other plans. The rules vary by plan type and by employer, but all defined contribution plans make the employee bear all the risk for the investments. Defined contribution plans also offer tax advantages, such as having your monthly contributions deducted before taxes, automatically reducing your annual income taxes.

Individual Retirement Account (IRA): An IRA is a type of retirement savings plan where the federal government, in exchange for limited access to your cash, offers you various types of tax advantages. Most IRAs require you to wait until age 59 to begin withdrawing your money without penalty,[7] but there are tax benefits to encourage you to save. There are several types, including traditional, Roth, SEP, SIMPLE, and education IRAs.

Compound interest: The principle that your money can work for you, as even small investments become larger given time. For example, money you put into a savings account earns interest. Then you earn interest on the money you originally put in, plus on the interest you've accumulated. The real power of compounding comes with time, so the earlier you start saving, the more your money can work for you.[8]

Annuities: As you approach retirement, an annuity is one way you can manage your income from defined contribution pensions or IRAs. According to the Women's Institute for Secure Retirement (WISER), an "annuity lets you convert all or part of your retirement savings to a guaranteed stream of lifetime income; the insurance company takes on the risk of figuring out how to make the money last as long as you will live,"[9] and determines your monthly benefit accordingly.

Lump Sum Distributions: When you leave a job or retire, you may have the option of cashing out your defined benefit or defined contribution retirement assets; this is considered a lump sum distribution. Be sure to convert this money into another official retirement plan to preserve your retirement savings. If you spend it, you'll incur a hefty tax.

[1] U.S. Administration on Aging, *Older Women: A Diverse and Growing Population*, 2000.
[2] AARP, *Midlife and Older Persons with Disabilities: Who Gets Help?*, 1998.
[3] OWL, *State of Older Women in America*, 2001.
[4] Women's Institute for a Secure Retirement, *What Every Woman Needs to Know about Money and Retirement*, 1998.
[5] Social Security Administration, *Fact Sheet: Women and Social Security*, May 2001.
[6] MetLife Mature Market Institute, *The MetLife Juggling Act Study: Balancing Caregiving with Work and the Costs Involved*, 1999.
[7] Women's Institute for a Secure Retirement, *What Every Woman Needs to Know about Money and Retirement*, 1998.
[8] U.S. Department of Labor, Pension and Welfare Benefits Administration, *Savings Fitness: A Guide to Your Money and Your Financial Future*.
[9] Women's Institute for a Secure Retirement, *Making Your Money Last For A Lifetime: Why You Need to Know About Annuities*, 2001.

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OWL is a 501(c)(3) nonprofit organization. It is funded through membership dues, the contributions of its members and other individuals, and through foundation, government, and corporate grants for research and special projects.

More in *The Color of Money* primer series . . .

- For an overview of women and Social Security, see Primer I: Women's Realities and Retirement Consequences.
- For more information on the retirement security of African American, Latina, and Asian American women, see Primer II: Retirement Security and Women of Diverse Communities.
- To read about reforms to Social Security, see Primer III: Women's Stake in the Social Security Debate.

Senator CRAIG. I thank all of you very much for your testimony.

There have been some common themes running through all of your testimony which are extremely valuable. Let me ask this first question of all of you. In your own minds, based on your experience and your observations, which would you single out as the most serious mistake that women make in planning for retirement?

Ms. HOUNSELL. I would say not planning. That is the biggest problem.

Senator CRAIG. Is there any disagreement with that?

Ms. YOUNG. That is assuming, though, that the mistakes are mistakes that women make. It is about planning, but it is more about being educated about what the realities of the system are. There is only so much you can plan. If you still earn less than men, if you do not have access to pensions, if you do not have that information, no matter how much you plan, you are not going to get there.

Senator CRAIG. Yes.

Ms. HARDY. In that regard, the whole question of financial education availability—it is there, but it is extremely complex in many cases, and as Mickey has suggested, starting earlier and having personal finance understanding would be a great step forward for everybody, especially women.

Senator CRAIG. In the context of those thoughts and statements, what would you recommend, or what would you say are the two or three most practical recommendations you would recommend to women who might be listening to this hearing today?

Cindy?

Ms. HOUNSELL. I would be happy to start. I think we need to provide information and education, but I think the most important thing that can be done, particularly with Members of Congress, is to do the work that is needed to strengthen Social Security. The information we have talked about today, the pay that women earn, the values and the caregiving, the issues that take women out of the workforce and compromise their ability to save and plan regardless of how much information they have, means that we cannot threaten Social Security, which often becomes the only leg that women can depend on in retirement.

So I think the most important step has to be strengthening and maintaining and enhancing Social Security for women.

Ms. SIEBERT. I think that if we spoke to people while they were in school and went through the benefits of a retirement fund, it is possible—that is why I used the $100 in my numbers, that somebody getting her first job might save $100 a month—or, if not $100, it may be $50—but we could get through to them that they must start, because it is the value of the compounding of interest over 20, 30, 40 years that will give them the money they need to retire when the time is there.

Ms. HARDY. I would like to comment that I think the reform of entitlement programs is really the essence for all of us—not just women, but men as well. If we are looking at huge tax increases for both Social Security payroll taxes and for Medicare in the future, how do we balance all these dollars? We are going to be paying all of our money into a payroll tax with the hope that something will be there, and I find that is not sustainable. I believe there are a lot of possibilities and options that we should be considering that include personal responsibility as well as a floor of protection as provided by entitlements.

Ms. HOUNSELL. Not to be redundant, but I think part of the problem is that when people even take their first job or they leave a job, they are not thinking about the consequences. One of the problems that we see is that people just do not think they are going to get older, so nobody pays any attention to it.

Senator CRAIG. Well, we can all testify that they think wrong, don't they? [Laughter.]

Ms. HOUNSELL. They do, they do. But I think that women are also making choices that are just not good choices. They use their lump sum payments to pay for their kids' education. What is going to happen to them?

Senator CRAIG. Mickey, you talk about education, and I have absolutely no disagreement with you. This weekend, I was home in Idaho, and we celebrated the birthday of a 4-to-become–5-year-old, grown-up little girl. So our three children and their spouses were there, all in their mid–20's to early 30's. I was sitting back, listening to conversations, and one of the most enjoyable conversations was when they were all talking about their 401(k)s or getting into it, and all of them jumped on a daughter-in-law who had just become employed, and they asked what kind of benefits are available, and she mentioned the 401(k), and there was this unison: "How much are you going to put into it?" Well, she did not really know. They all said, "But you have got to do this, you have got to do this." I was very pleased at that. I did not really have to say much, and they were not asking my advice at that moment; this was a conversation going on amongst the six of them.

But the difference today, let us say, between the 30-year-old woman in the workplace and that woman who is moving into retirement today—are we seeing a significant difference in the knowledge base that can allow them when they become 60 to be better off than the 60-year-old of today?

Ms. SIEBERT. I think the 30-year-old woman today, as I see it—and part of them have become the "sandwich generation," as they call it, because they are squeezed between obligations to parents and obligations to children—I believe these women know that at one time or another, they are going to have to be responsible for the financial matters in the family, or they must take control of their own financial matters; whereas the woman who is in her sixties or seventies today and collecting Social Security was raised to get married, and your husband will take care of you.

I think today's young people are more realistic; they know that if they get a divorce, chances are that they might collect alimony for only a couple of years, but it is not a lifetime alimony that they will collect. So I think they are realistic.

Are they taking the next step and investing up to the maximum or making a good contribution every month? Not particularly. I see it in our women's financial network website. They are coming to our website, they are spending a lot of time surfing on it, but they are not opening the accounts. Is it because there is a recession, and they do not have the money? Is it because we have done a poor job of explaining it? I do not think so. Is it because it is something they put off, and they say, "I can start that next year, because I want to buy a new car." I do not know.

Senator CRAIG. Does anyone else wish to comment on that question and your observations on the 30-year-old and the 60-year-old?

Ms. HOUNSELL. I think one thing that was surprising about the report when we were putting together a lot of the statistics—and we find that from our education program—is that there are not a lot of differences. There may be some women, especially those who live in big cities, in the same way that you were talking about your family, who have access to that kind of information. But most of the people that we are educating are not hearing from cocktail parties or other places about diversification or replacement rates. They do not even know what that means. Those are the people that we are really concerned about, and I think they are the majority.

A lot of women get into their marriage—I keep saying that we should do a lot of work with Bride Magazine and try to prevent people from spending so much money on their weddings early on and use that money to prepare for retirement, but I do not think anybody is going to read that article in Bride Magazine.

Senator CRAIG. In other words, "Mom and Dad, put a deposit in my 401(k), not on my gown."

Ms. HOUNSELL. Exactly.

Senator CRAIG. Does anyone else wish to comment on that question? [No response.]

Then, let me ask this of all of you, and for the sake of time, it will probably have to be my last question.

In addition to promoting better education for women about retirement realities and better individual planning, some of you also ventured recommendations of ways that Government can help.

For example, Dorcas, you advocate allowing greater contributions to IRA accounts, and Ms. Young, you mentioned making changes in Federal law to open greater access to pensions for lower-income and part-time workers.

Assuming for the moment that significant new Federal expenditures are unlikely in the current budget climate, what would you say are the top one or two most effective steps that Government could take to ease women's retirement preparations that would not involve extraordinary new expenditures?

Cindy.

Ms. HOUNSELL. I do not mean to beat the horse dead, but I think education, to make sure that people do take advantage—Laurie mentioned that, and we mentioned that in our written testimony—to make sure you take advantage of the retirement income that is available. Twenty-five percent of women are not contributing to their 401(k)s. You know, most people do not have 401(k)s. People are always surprised—they say "I know someone without a 401(k)." Well, believe me, more than half the workforce does not have a 401(k) or a pension plan.

So I think that getting people to take advantage, of which is available and helping employers to convince employees to contribute to their plan that would make a big difference.

Only 8 percent contribute to an IRA, so I think we can keep expanding those limits, but if people do not have the money, where are they going to find it to put into an IRA?

Senator CRAIG. Dorcas.

Ms. HARDY. In terms of a Government role, I would suggest reform of the entitlement programs. I think that if people understand that they do not have to be worried as people are beginning to be about the sustainability of both the Medicare and the Social Security programs, that will go a long way. In that regard, I would suggest a comprehensive reform of Medicare that has been discussed up here by your Chairman, Senator Breaux, and also Senator Frist. I would also suggest that the Social Security system be redesigned so that it does include personal retirement accounts. There is plenty of evidence that with that choice that people would have, there would be higher benefits than the current system promises let alone what it is going to be able to deliver. One would be able to build wealth and also have the ability to pass on that wealth and those savings to their family through inheritance. I think that would go a long way toward making sure that everybody has a comfortable retirement.

Ms. SIEBERT. I have an idea that would be a nightmare to administer.

Senator CRAIG. Well, give us a try.

Ms. SIEBERT. Our Social Security that is withheld is not tax-deductible. If we made it tax-deductible for lower-income people with the requirement that they have to invest the tax savings in an IRA, it may create some forced saving in an IRA which would accumulate.

Senator CRAIG. Well, I think all of us would like to create an incentive for savings or incentive for investment in any of our systems, and that is an interesting idea.

Ms. SIEBERT. Because Social Security is the biggest tax these people pay.

Senator CRAIG. Yes; no question. That is right.

Yes, Laurie.

Ms. YOUNG. I feel compelled as the Executive Director of OWL and our Mother's Day Report on Social Security to suggest that at first thought, at least do not do any harm, and that would be to not take huge sums out of the Social Security system as it exists now to set up a privatization which would in fact impact existing recipients of Social Security and affect the one leg of the stool that women rely on.

In terms of a proactive stance, I think the most important thing we can do for young women coming up in the system is enact pay equity legislation which would begin to level the playing field so that women can earn at the same rate that men do and then begin to save and have the same kinds of comfort in retirement that men enjoy.

Senator CRAIG. I thank you all for those thoughts. They are extremely valuable. I do not think there is any question that what we do has to be long-term in its character as we build toward the next generation's retirement. I would agree with you, Laurie. I think that we will venture toward reforming Social Security, but the "Do no harm" becomes a critical part of it, or we will never be able to politically get to the other side of allowing the kind of individual accounts that will generate that kind of individualized wealth.

I guess I have to ask one additional question. When people who have been non-investors begin to take it upon themselves to invest, their desire to gain more knowledge and education about what they have multiplies very rapidly. So that from the almost zero knowledge to the acquiring of additional information seems to be a quantum leap, and when it starts, it is a very rapid multiplier, and the uneducated can become really quite sophisticated in a reasonably short period of time because they desire to do so once they find out that this is a generator of personal wealth for themselves.

Is that generally the experience that you have had in dealing with women who start into the process of 401(k)s and personal accounts and investment?

Ms. HOUNSELL. No. I think there are those people who really do get into it, but I think that people are so time-conflicted, and it is so confusing, and they do not have the time to learn. I sort of alluded to that—it is very complicated. People will say to me, "I took my money out of the teachers retirement plan 4 years ago; should I put it back in, or what should I do?" I ask them, "What type of plan do you have? Did you talk to the retirement people?" "No. They sent me stuff, and I could not understand it." So that is a big problem.

Senator CRAIG. Fair enough.

Ms. HARDY. I think time is obviously a constraint for everybody, but I do believe that if women do attend some of the seminars put on by the financial services industry, or they work with their employer counselors or they use Muriel's website, there is educational material there, and there are also financial planners who can help out with people. But you have different classes of folks and different income levels.

Senator CRAIG. Oh, yes.

Ms. SIEBERT. I think we still need a real emphasis on financial literacy for both men and women. The women are a little more conservative in their investments now than men—the younger women are not; those at 25 and 30 are willing to go into the same kinds of securities. But we need education for both. This is not limited to women, because I have seen it, and I have seen the bankruptcies.

I will say that the fastest growing group of bankrupt people is single mothers, single-parent mothers, and those numbers are frightening.

Senator CRAIG. They are that, yes.

Any additional comment on that, Laurie?

Ms. YOUNG. Yes. Just in reference to my earlier comments, when you think about the fact that two-thirds of the part-time workforce is female, when you think about the fact that two-thirds of women who are employed today still work in pink-collar jobs which are lower wage with less benefits, when we talk about women, we are primarily talking about a class of people who do not have a lot of resources, particularly single mothers or people who are having to take care of people, to do that kind of investing. I am sure that when they have an opportunity to invest, they are certainly interested in getting more information about it. But we are really not talking about women in general when we talk about people who are able to invest and therefore have a greater interest in managing their assets.

Senator CRAIG. That is always very valid, because if you are making those lower incomes, especially if you have children, it is even difficult without them.

Thank you all very much for your testimony and your statements for the record. They are greatly appreciated in helping us build this record.

Thank you very much.

Now let me ask our second and final panel to come forward.

We are going to hear from two women who have encountered particular challenges in preparing for their retirement as well as from a representative of a nonprofit organization dedicated to providing hands-on counseling to people, both men and women, who need assistance in understanding in protecting their pensions.

I will ask Irene, Joan, and John to come forward, please.

As I mentioned earlier, Irene is from Boise; Joan is from Salem, NJ, and we look forward to their stories. John Hotz is Deputy Director of the Washington, DC-based Pension Rights Center, which helps to coordinate a multi-State network of pension information and counseling programs and Administration on Aging-funded programs established several years ago in large measure at the instigation of this committee, under the guidance of then Chairman Chuck Grassley of Iowa.

Again, thank you all very much, and Irene, we will ask you to start.

STATEMENT OF IRENE LAMARCHE, RETIREE, BOISE, ID

Ms. LAMARCHE. I accepted the invitation to come not because I wanted to say "poor old me"—because I am rich in many ways. In order to conclude my statement in the 5 minutes allotted, I am going to read it rather than do it extemporaneously.

Senator CRAIG. That is fine.

Ms. LAMARCHE. I am a 76-year-old woman who, in spite of working most of my life, has very limited retirement resources. There are a number of circumstances that have contributed to my situation.

First, I was born in 1925, and I am therefore a Social Security "notch baby," which most people these days do not understand. Just by circumstances alone, I am entitled to less Social Security than others. I paid my way through college during and after the war by working in a men's clothing store for 50 cents an hour. After graduation in 1947, I taught high school math, first in Superior, WI, and then in Ironwood, MI, before taking a position in St. Maries, ID. I was married in 1949 and left the workforce for a number of years while I gave birth to and raised four children.

In 1957, I took a teaching position at Borah High School in Boise, ID, and taught mathematics there for 6 years. In 1963, I taught math at Saint Teresa's Academy in Boise in its last year of existence.

Unfortunately, none of the teaching positions paid into Social Security, but rather, into a small teacher retirement fund. When I moved between positions, I had to take the money out of the retirement account, and because it was always so little and money was scarce, I had to spend the money.

While working at Borah, I also taught skiing part-time at Bogus Basin Ski Resort outside Boise. After I left teaching, I taught skiing full-time at Bogus Basin. Then, I spent 8 years, from 1969 through 1977 as Director of the Bogus Basin Ski School. I did have a small retirement plan with Bogus Basin, and I cannot remember if they contributed to Social Security or not before I was the director.

After 30 years of marriage, I was divorced in 1978. At that time, I did not work. As part of the divorce agreement, I was paid $750 a month for 2 years for what was termed "rehabilitation pay." I also received the family home, along with the mortgage, in the settlement.

At the age of 55, I had to go back to work. I worked in a number of positions where Social Security deductions were taken from my paycheck—taxpayer information for the Internal Revenue Service, as a personal assistant to Verna Harrah in Sun Valley, for an office design firm, and as organizer and Executive Director of the First Security Winter Games of Idaho at the request of the Idaho Centennial Sports Commission.

At age 62, I began to draw Social Security benefits to augment my income. I had since sold the family home and was able to invest approximately $60,000.

At age 66, I stopped working completely, primarily due to health issues. Because of the teaching jobs I had that did not pay into Social Security, being a "notch baby," and my divorce, I am currently receiving $518 a month in Social Security benefits plus Medicare.

Additionally, I receive approximately $500 a month from investments I was able to make from the money I received from the sale of my house, money I saved from my job in Sun Valley and with Winter Games. At this time, I was putting my youngest son through college.

I have been living in an apartment where the rent has increased to $695 a month. I no longer can afford to live there and have been forced to find another apartment. I have been on a waiting list for 2 years with Idaho Housing to receive vouchers for rent subsidy—and incidentally, that is the first help I have ever asked for. I have finally reached the top of the waiting list and will be able to receive help from this agency. While I have not received final confirmation from Idaho Housing as to how much they will subsidize, I moved into an apartment complex on May 14 that accepts the subsidies. Regular rent for a one-bedroom apartment is $545 a month, but I am hoping that I will only pay $300—since this report was written, I have found out that it is $315 a month.

I have never lived extravagantly and have scrimped all my life. If not for the money I received from the sale of my home, I would be in a terrible financial position. I never had extra money to put aside to save for retirement and thought I could rely on Social Security. Had I not been divorced, I may have been able to receive a larger benefit because of my former husband's contributions. Incidentally, I cannot remember if his contribution to my Social Security is $13 a month or $31 a month, but that is all I get from his.

As it is, if he drops dead, I will be entitled to a larger benefit based on his contributions and the number of years we were married.

Thank you for the opportunity to testify before this committee.

Senator CRAIG. Irene, thank you very much for that thorough explanation of your life and your work history, and of course, the benefits of it, or the lack of benefits of it. I think that is very valuable. I think it is quite typical of many women your age, and it is valuable for us to hear that.

Senator CRAIG. Joan, welcome to the committee. Joan has a story that is very important for the committee to hear about.

Let us hear from you now, please.

STATEMENT OF JOAN MACKEY, PENSION COUNSELING CLIENT, SALEM, NJ

Ms. MACKEY. Good morning. My name is Joan Mackey, and I am honored that you have invited me to speak today about the importance of educating women on the pitfalls they may encounter in preparing for retirement.

I must tell you that I would not be in the situation that I am currently in if I had only known when I was going through my divorce what I know now.

My husband, Lavond Mackey, Sr., and I were married for 21 years. We lived in Philadelphia, PA. Throughout our marriage, my husband worked at the Home of the Merciful Savior for Crippled Children, a rehabilitation center and group home for children with cerebral palsy and other physical disabilities. He worked as the chef for the home, preparing meals for the children.

Although I also worked at two jobs, we were primarily dependent on my husband's income. That is because I was also caring for our three children.

By 1990, my marriage had fallen apart. My husband had become so abusive that to protect my children and myself, I had to move out of our home. I was able to find a lawyer to help me with the separation agreement later that year. In it, my husband agreed to stay away from us and provide support for the children. At that time, our oldest child was only 12 years old.

I filed for divorce in 1994. At that time in our lives, we owned very little. I had a car; my husband did not. We rented our home. I had no savings, insurance, or investments. My husband had spoken from time to time about investments and savings accounts, but at the time of our divorce, he had hidden them or spent them, because my attorney could not find anything. I knew he had a pension and life insurance through his job, but to be honest, I never thought about it in connection with the divorce, and my lawyer never mentioned it. I was just concerned with getting the child support we needed to pay our rent, food, and other bills.

The divorce court order was just 2 pages long and repeated almost exactly what was in the legal separation order—that my husband would stay away from us and pay child support. There was no mention of the insurance or pension.

My ex-husband continued to work for the home, now called HMS School for Cerebral Palsy, until 1996 when, after more than 18 years, he had to quit working due to cancer. He died in 1997. The last months before he passed, he told me several times that I would get money from his insurance and pension at the home so that the children and I would be taken care of.

After he passed, I asked the home about the insurance policy and pension benefits my ex-husband had mentioned. The lady at the benefits office told me that they could not pay me anything because I was not married to my ex-husband when he died. This just did not make sense, because my ex-husband had told me so many times that the benefits would be mine.

I went to Community Legal Services in Philadelphia and found a wonderful lawyer willing to help me. We learned that the benefits manager at the home actually wanted to pay me the widow's pension benefit my ex-husband had talked about, but the lawyer for the home had said no, that they could pay me if I had gotten a divorce court order directing them to pay the benefits and that if they did it without a court order, the plan would get into trouble with the Government.

This still did not make sense. It did not seem right. So the pension plan provided benefits for widows at no cost to husbands, and my husband had not given those benefits to anyone else. If I had only known to ask for the benefits during my divorce proceedings, there would have been no problem paying them to me.

I am now 48 years old, and I am very worried about what I will live on when I cannot work anymore. I know firsthand the importance of retirement security. Both my father and my mother are receiving pensions. I could not imagine what their lives would be like without them.

I have worked all my life, but until recently never had a retirement plan through my employer. I currently work as a real estate broker and do direct marketing for a cleaning company of which I am part owner. The cleaning company has a 401(k), and I have worked hard to contribute the $4,000 that is in there now. But I am worried that I will not be able to save enough money. The survivors' benefits from my ex-husband's pension would make a big difference.

I know that I am not alone in being frightened about my future financial security. I hope that this committee will get the word out to women throughout the country about the importance of educating themselves about retirement before it is too late, and most important, that they need to ask about their rights to survivors' benefits when they are going through a divorce. If my experience is any guide, women cannot count on their lawyers to ask about the pension.

Thank you for inviting me to share my experience. I hope that my story can help other women. I would be happy to answer any questions.

Thank you.

Senator CRAIG. Joan, thank you. That was very valuable testimony, and your advice is extremely important.

John, let me turn to you. John Hotz is Deputy Director of the DC-based Pension Rights Center.

Please proceed, John.

STATEMENT OF JOHN HOTZ, DEPUTY DIRECTOR, PENSION RIGHTS CENTER, WASHINGTON, DC

Mr. HOTZ. Good morning, Senator Craig.

My name is John Hotz, and I am Deputy Director of the Pension Rights Center. The Center is the Nation's only consumer organization dedicated solely to protecting and promoting the pension rights of American workers, retirees, and their families.

For 26 years, the Center has been at the forefront of efforts to help individuals understand and enforce their retirement rights. I also coordinate the Center's Technical Assistance Project, providing training and legal assistance to the Administration on Aging's Pension Information and Counseling Program, a network of pension assistance projects around the country offering free pension help to those who need it, particularly disadvantaged seniors, women, and minorities. We thank you for inviting us to testify on the resources available to women to enable them to avoid pension pitfalls and effectively prepare for their retirement years.

You have just heard Joan Mackey testify about her experience with one such pitfall, not knowing to ask for a widow's pension benefit at the time of divorce. Sadly, Joan is not alone. We hear from numerous women each year who tell us their own version of Joan's heart-wrenching story. Her situation is different from theirs in only one critical respect. Joan found out of the few legal services attorneys in the country willing to help in the complicated area of pension law.

For other women around the country with pension questions and problems, the good news is that tremendous strides are being made in building a nationwide pension counseling and assistance system. In 1992, recognizing the complexity of pensions and their importance to the retirement security of older Americans, Congress established the Pension Information and Counseling Demonstration Program as part of the Older Americans Act Amendments. Last Congress, thanks to the leadership of this committee and particularly its former Chairman, Senator Charles Grassley, the counseling projects became a permanent program of the Administration on Aging, providing free, personalized pension counseling and advocacy.

The AOA program is currently providing invaluable hands-on assistance to individuals in 16 States on all kinds of retirement-related problems. Since its inception, the Pension Information and Counseling Program has served over 10,000 individuals and has helped those clients receive more than $40 million in pension and other retirement benefits.

Due to these impressive and cost-effective results, the AOA is interested in expanding the program nationwide. But the best way to communicate the value that the AOA projects bring to women in need of pension assistance is through an example.

Sallie Mae B. is a typical project client. An impoverished elderly widow from rural Alabama, Sallie Mae contacted the Alabama project for help. Her husband had lied to the lumber yard where he worked, claiming that he was divorced and naming his daughter from another relationship as his pension beneficiary. Only after her husband's funeral did Sallie Mae learn from the lumber yard supervisor that she should have something coming from his pension.

The project argued that Sallie Mae was still married at the time of her husband's death, but the plan had already begun to pay the daughter and refused to reverse itself. It took months of hard work, but the project finally convinced the plan to pay Sallie Mae the $25,000 she was due—a very significant sum of money for her.

In addition to this kind of personalized assistance and advocacy, the projects also publish fact sheets and other educational materials for women and make referrals to Government agencies and pension professionals.

Pension-related Government offices willing to help include the Labor Department's Pension and Welfare Benefits Administration, the Employee Plans Division of the Internal Revenue Service, and the Pension Benefit Guarantee Corporation. Private services include the National Pension Lawyers Network, a pension and domestic relations lawyer referral service operated by the New England Pension Assistance Project, and the American Academy of Actuaries' Pension Assistance List, a network of actuaries willing to help participants check the accuracy of their pension calculations.

Although great strides have been made toward the development of a nationwide pension assistance service delivery system, gaps still exist. To help close these gaps, we are turning to the internet.

Under contact with the Labor Department, we developed a prototype for a pension assistance website that we will formally launch later this year with funding from the Administration on Aging and the Public Welfare Foundation.

PensionHelp America is specifically designed for pensioners, pension plan participants and their families. It will provide a free pension information search engine, as well as referrals to counseling projects, Government agencies, attorneys and other professionals. It will also allow users to search for benefits from pension plans sponsored by companies that have moved, been bought out or have otherwise gone out of business since the individual last worked there.

As the Pension Rights Center has worked to build a nationwide public-private partnership of agencies and professionals to assist individuals with their pension questions and problems, we have ensured that issues faced by women remain a top priority.

We would be pleased to work with the committee to continue the growth of pension assistance in America and to increase retirement security for older women and all American workers.

We thank you for allowing us the opportunity to share this information, and I would be pleased to answer any questions that you might have.

[The prepared statement of Mr. Hotz follows:]

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**STATEMENT OF THE PENSION RIGHTS CENTER
ON
"SETTLING FOR SILVER IN THE GOLDEN YEARS"
BEFORE THE
SPECIAL COMMITTEE ON AGING
OF THE
UNITED STATES SENATE
WASHINGTON, D.C.
MAY 23, 2001**

Mr. Chairman, Members of the Committee, my name is John Hotz. I am the Deputy Director of the Pension Rights Center. The Center is the nation's only consumer organization dedicated solely to protecting and promoting the pension rights of American workers, retirees and their families. For the past 26 years, the Center has been at the forefront of efforts to help individuals understand and enforce their retirement rights. I also coordinate the Center's Technical Assistance Project, providing training and legal assistance to the Administration on Aging's Pension Information and Counseling Program, a network of pension assistance projects around the country which offer free help to older Americans, particularly disadvantaged seniors, women and minorities. We thank you for inviting us to testify on the resources available to women to enable them to avoid pension pitfalls and effectively prepare for their retirement years.

You have just heard Joan Mackey testify about her experience upon encountering one such pitfall – not knowing to ask for a widow's pension benefit at the time of divorce. It is the sad reality that Joan Mackey is not alone. At the Pension Rights Center, we hear from numerous women each year who tell us their own version of Ms. Mackey's heart-wrenching story. Her situation is different from these other women in only one critical respect. She was fortunate to find one of the very few legal services attorneys in the country willing to help individuals whose issues fall into the complicated area of pension law. We met Ms. Mackey through her lawyer, who contacted us to help her receive the benefits that her ex-husband was sure she would get.

For other women around the country with pension questions and problems, the good news is that tremendous strides are being made in building a nationwide system to provide pension counseling and assistance. In 1992, recognizing the complexity of pensions and their importance to the retirement security of older Americans, Congress established a Pension Information and Counseling Demonstration Program as part of the Older American's Act Amendments. Last Congress, thanks to the leadership of this Committee and particularly its former Chairman, Senator Charles Grassley, the Counseling Projects became a permanent Program of the Administration on Aging. The Program provides workers, retirees and their families free, personalized pension counseling and advocacy.

The AoA Program is currently providing invaluable, hands-on assistance to individuals in sixteen states: Alabama, Arizona, California, Connecticut, Delaware, Illinois, Maine, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New York, Ohio, Rhode Island and Vermont. The projects deal with all types of retirement plans, whether sponsored by a private or government employer. Since its inception, the Pension Information and Counseling Program has served over 10,000 individuals and has helped those clients receive more than $40 million in pension and other retirement benefits. Due to these impressive and cost effective results, the AoA is interested in expanding the Program nationwide.

Each of the projects operates differently. For example, the Alabama project is run as a law school clinic, supervised by one of the nations foremost experts on pension law. The Missouri project is administered by the St. Louis chapter of OWL, and specifically targets its efforts toward low-income, minority women; and the Arizona project operates out of an Area Agency on Aging, calling on its network of retiree-volunteers to assist clients.

The best way to communicate the value that the AoA projects bring to women in need of pension assistance is through examples of their good works. An impoverished widow from rural Alabama, Sallie Mae B., contacted the Alabama project for help. Years earlier, Ms. Bell's husband lied to the lumber yard where he worked, claiming he was divorced and electing his daughter from another relationship as his beneficiary. It was only after her husband's funeral, that the yard supervisor told Sallie Mae she "should have something coming" from his pension.

Normally, this case would present an easy set of facts for a counseling project, needing only to show that the wife was still married to the pensioner at the time of his death to override the actions the plan had mistakenly taken. However, the plan had already begun to pay the daughter, and was reluctant to alter its course. After months of intervention, the project successfully represented Sallie Mae in settlement negotiations, and she received her rightful benefits.

When 62-year old Consuelo M. contacted the California counseling project, she was fearful that her abusive ex-husband would learn that she was inquiring about pension benefits through his old employer's pension fund. She barely spoke English, was in ill health and lived alone in a home desperately in need of repair. She already had a professionally prepared domestic relations order providing her both retirement and survivor's benefits from her ex-husband's retirement plan. Yet, she had not applied for the benefits she had been entitled to for nearly seven years for fear of retaliation. The project helped Consuelo apply for her benefits, carefully explaining the different payout options under the plan, and how much she might expect to receive given different life expectancies. The caring assistance of the counseling project allowed Consuelo to make an intelligent benefit choice and - within only weeks - receive a lump sum of more than $17,000 and a life annuity of $200 a month. Those critical resources allowed her to pay for much needed prescription medications, and make necessary repairs to her home.

The Counseling Projects also assist working women. One such service is to assist individuals to track down their "lost" pensions – those benefits from pension plans sponsored by companies that have moved, been bought out or have otherwise gone out of business in the years since the client last worked there. The projects have also been extraordinarily helpful in obtaining 401(k) distributions for clients who are changing jobs. In some instances, these individuals have been laid off and are in danger of losing their homes, or are unable to cover medical expenses. The projects provide a critically valuable resource to the clients they assist.

In addition to personalized assistance and advocacy, the program has produced fact sheets to educate women and others on a variety of pension and retirement related issues, including: "Important Facts on 401(k) Plans" and "Pension Issues for Divorced Persons and Survivors." They have also produced special fact sheets for federal pensioners and their families covering the federal civil service, military and railroad retirement systems.

Starting in 1997, the U.S Department of Labor's Pension and Welfare Benefits Administration significantly expanded its pension assistance efforts. The Labor Department's 15 field offices now provide information to individuals with questions about private pension and health insurance plans. In addition, the Internal Revenue Service operates a technical advice hotline available to practitioners and participants with pension questions, and the Pension Benefit Guaranty Corporation responds to queries about terminated defined benefit plans. The counseling projects work closely with each of these important agencies.

For women needing an attorney to help them file a pension claim, or divide a pension at divorce, there is the National Pension Lawyers Network. This nationwide network of pension and domestic relations attorneys was originally developed by the Pension Rights Center, and is now operated by the AoA Counseling Project in New England, with financial assistance from the Pension and Welfare Benefits Administration. Additionally, the American Academy of

Actuaries offers the Pension Assistance List, or PAL program - a referral service for participants who need actuarial help in calculating their pension benefits. The PAL program is relatively young and does not yet have actuaries in every state, but it is steadily growing.

Indeed, great strides have been made toward the development of a nationwide pension assistance service delivery system, but gaps still exist. Most notably, there are still 34 states without pension counseling projects. To help close these gaps we are turning to the Internet. Under contract with the Labor Department, we developed a prototype for PensionHelp America, a nationwide pension assistance website exclusively for retirement plan participants and their families. PensionHelp America will be launched later this year with initial funding from the Administration on Aging and the Public Welfare Foundation. As a single point of entry for those seeking information on any pension system in America, PensionHelp America will provide its visitors free information through its pension-specific search engine, as well as referrals to pension and domestic relations attorneys, actuaries and other retirement-related professionals. It will also enable users to anonymously search for their "lost pensions."

It has been a primary goal of the Pension Rights Center to build, through partnerships with both government and private entities, a nationwide network of professionals willing to assist individuals with their pension questions. Throughout this course, we have ensured that issues faced by women remain a top priority. We would be pleased to work with the Committee to continue the growth of pension assistance in America and to increase retirement security for women -- and all American workers.

Thank you for allowing us the opportunity to share this information. I would be pleased to answer any questions you may have.

Senator CRAIG. John, thank you very much. That is good news, and we will look forward to some of those products.

Irene, what retirement advice would you most appreciate having received at some time in your life that might have changed the decisions you made or the actions you took? Have you thought of it in that context?

Ms. LAMARCHE. Well, to begin with, I never thought I would have to worry about retirement and so I did not do anything about it. But as soon as I was divorced, I got rid of my credit cards, and thought if I cannot pay cash, I cannot buy it, and then, with the sale of the house—it was at a time when the housing prices were down in Boise—I did not receive, of course, what the house was worth. So I put it all in utilities that would pay me a income every month from interest and such. When, they were all called, I put the money into income bonds.

I just had not planned for any problem. I quit my job at the ski school thinking that it would help save my marriage, which it did not do, and therefore gave up one of the best jobs I ever had, and that is when I started thinking about what I needed to do.

Senator CRAIG. Well, as I said, for the record, I think it is very valuable that we hear that story, and you told it well.

Ms. LAMARCHE. Also for the record, the investment lady from New York I thought had a very good idea, having been an educator myself, about having a way of teaching young people, not just women but men, how to prepare for the future by having something in the educational system that tells kids how to write a check and what their Social Security can do for them and how to invest.

Senator CRAIG. Well, I have no disagreement there. Having raised three children, I know that in both my wife's and my efforts with them, the enticement of credit cards is very, very strong. It is when they are adults and they are out seeking credit and all of a sudden find out that they might not have been as responsible as they should have been or maybe as mom or dad told them, so it is probably better sometimes if that information comes from another source. I readily agree that that kind of financial education ought to go on in our high schools today for all of our children and for this country; it would be very valuable.

Irene, thank you.

Joan, your story is not only important for the record, but obviously, knowing what you know now and had you known it at the time of your divorce—how much in pension income would you have had the opportunity to have had you had the knowledge that you now have?

Ms. MACKEY. Do you mean monthly?

Senator CRAIG. Yes.

Ms. MACKEY. I think we talked about—what was it——

Mr. HOTZ. Somewhere between $150 and $200 a month.

Senator CRAIG. That would have been very helpful; absolutely.

Ms. MACKEY. Yes, it would have.

Senator CRAIG. Are you still pursuing the case?

Ms. MACKEY. Yes, I am.

Senator CRAIG. Well, my best hope to you in being able to gain that. To think that if you had only had that knowledge at the time of the divorce, and that would have made you eligible, is an amazing factor. You want to go around—and I hope you do—and shout that very loudly to all of your friends.

John, is there any hope for Joan to be able to gain this pension, in your thoughts or experience?

Mr. HOTZ. Yes, there are two tracks. One is legal, and the other is legislative. We are arguing—there is a very technical regulation that actually, literally read, would support Joan's position that her beneficiary election that her husband had made actually survives the divorce. However, it is common practice in the pension industry on the plan side to say that there is no survivor benefit without one of these court orders.

So we are trying to work with the Technical Division of the Internal Revenue Service to get an interpretation of that regulation that would support Joan's position. That is sort of the legal side.

On the legislative side, we will just be looking for a change in the law that would allow for women to be protected if they do not know to ask for this at divorce, legislating that if there is not a court order that one be basically implied in situations where it was not asked for.

Senator CRAIG. OK. That would be extremely valuable.

Listening to your testimony, John, I am struck by the almost extreme complexity of this country's pension system, a complexity that is compounded when questions of divorce or survivorship enter into the picture. Working on the front lines as you and your colleagues do, what recommendations might you have of ways to simplify the system to make it easier for women like Ms. Mackey and Ms. LaMarche in dealing with their situations?

Mr. HOTZ. It is sort of the nature of the beast to be complex because it is a creature of the Tax Code.

I think that what would take the greatest stride toward making the system simpler would be to give greater access to that system to our low and moderate wage-earners. Something needs to be done to allow very popular programs like the 401(k) program to be accessible by low and moderate wage-earning families or single parents or whomever might want to contribute to a program like that.

First, more employers need to have programs that allow people to save. Then, low and moderate wage-earnings do not have enough money to actually put into that program, so they cannot begin to take advantage of, first of all, the savings benefit and the compounding, but they cannot get that employer match. So we need to work on access and coverage.

Senator CRAIG. You have certainly reinforced the point of the first panel, and Laurie mentioned that.

In your experience coordinating numerous pension counseling programs around the country, what are the top two or three most critical warnings or pieces of advice that you might give women in dealing with their own or their spouses' pensions?

Mr. HOTZ. Probably that would be not to give up the pension at the time of divorce in a tradeoff for some physical or other monetary resource like the house or the car. It seems oftentimes—and it is mostly women that we see in this situation—if there are children involved, oftentimes, having that home can be very important, but they do not realize the long-term financial impact of giving up a portion of the other wage-earner's retirement benefits.

Far and away, that is probably the most significant issue that the projects that I work with across the country are dealing with. The No. 1 issue is spousal problems related to divorce.

Senator CRAIG. Yet, at the time those kinds of decisions are made, that is probably the most stressful time in that person's life, and they are looking for the immediate sense of security. It is very difficult to look out long-term.

Mr. HOTZ. Even when you do have the knowledge, it is a difficult thing to wrap your mind around.

Senator CRAIG. Yes. As you mentioned, the Administration on Aging's Pension Information and Counseling Program is what it is today in part because of this committee's work. But short of asking for more money, which we would probably all like to do, is there anything that we in Congress can do to help improve the program even more, based on your perspective of it?

Mr. HOTZ. Well, every year, the appropriations bill comes around, and supporting the program through appropriations is always a big assistance, and in the past, the committee has been a tremendous support. So although it is now labeled as a permanent program under the Older Americans Act, we still need that support on an annual basis.

Senator CRAIG. Irene, Joan, and John, again, thank you for your testimony this morning and helping us build the record. Both Chairman Breaux and I are increasingly concerned about the reality of what we are looking at here. Statistics are one thing, but personal testimony builds on an understanding of what those statistics mean across the country as we find older women really in very difficult situations for all the reasons that we have heard this morning.

We thank you for being a part of this hearing and helping us build the record.

The committee will stand adjourned.

[Whereupon, at 11:05 a.m., the committee was adjourned.]

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