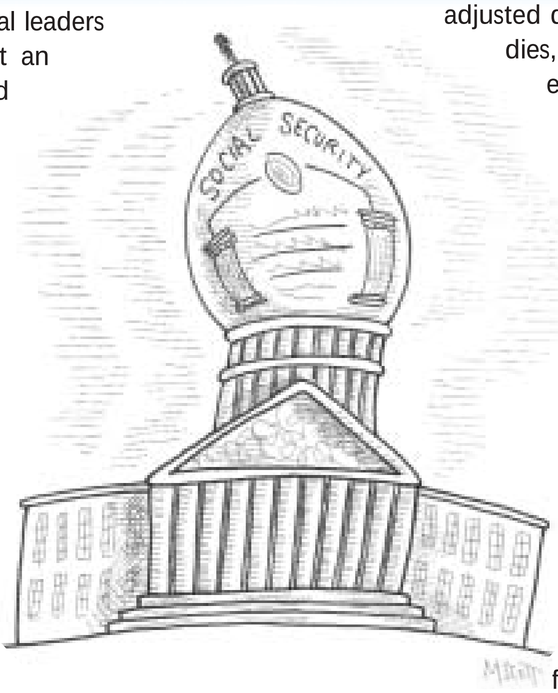
WISER Woman
Winter 2005
A Quarterly Newsletter from the Women's Institute for a Secure Retirement

The ABC's of Social Security:

What You Need to Know About the Upcoming Debate

President Bush and Congressional leaders are laying plans to implement an ambitious agenda for his second term. A key issue for everyone, but particularly women and families, will be reform of the Social Security system. To help our readers navigate the debate, we've compiled this primer. We urge women to learn as much as they can and to become informed activists and voters.



Who benefits from Social Security? Social Security has been the nation's single most successful social program, helping millions to escape poverty in old age and providing disability benefits to workers who become disabled and survivor benefits to spouses and children when a wage earner dies or becomes disabled.

Social Security is the cornerstone of a woman's economic safety net—without Social Security, more than half of elderly women would live in poverty. As a life-long benefit, with cost-of-living adjustments, the value of the benefit is protected over time.

Social Security is even more critical to minority older persons. About 1 in 3 African Americans relies on Social Security as their *only* source of income. Two in five older Hispanics rely on Social Security as their *only* source of income.

More than retirement benefits. Most people know that Social Security provides retirement benefits to workers and spouses, but many do not know that when a wage earner becomes disabled, Social Security provides a lifetime, inflation-adjusted disability benefit. When a wage earner dies, Social Security provides survivor benefits to a spouse and to children under the age of 18. Currently, there are about four million children receiving Social Security benefits!

When Barbara Johnson died of cancer at the age of 46, both her mother and her son were provided with social security survivor benefits. Barbara was the sole support of her family but after she died the survivor benefits provided enough income to keep her family together.

According to the government, Social Security's survivor's benefit provides the equivalent of a life insurance policy worth over $400,000. The disability benefit is worth over $300,000.

Why reform the system?

Two key demographic changes put a strain on Social Security finances in the future. Because the large baby boom generation is getting ready to retire, more people will be getting benefits compared to the number of workers paying taxes into the system. Also, people are living longer and collecting benefits for longer periods. For these reasons, Social Security faces a shortfall in about forty years. But, although there is no immediate crisis, changing the program abruptly or delaying the changes may prove more controversial in the future.

Social Security payroll taxes currently generate more than what is needed to pay current benefits. The surplus is invested in trust funds, which earn interest. (The trust fund now has about $1.5 trillion dollars invested in U.S Treasury bonds which are lent to the rest of the government.) But, there is no *lockbox* for the extra money coming in.

ABCs of Social Security *continued on page 4*

Inside

Samantha's Story page 2
Social Security Facts page 3
Divorce and Retirement page 5

From WISER's Executive Director

As the population of this country ages, two important issues are emerging. First, how do we maintain a strong and reliable Social Security system as an economic safety net?

Second, as we live longer, we will need more long-term care services. How will we pay for long-term care and can we devise a system that meets our needs for quality care in our own homes and communities?

The President and Congress are now turning their attention to making changes in the Social Security system. The proposals will have far reaching consequences for all workers, but particularly women, minority workers and families of disabled and deceased workers. How these issues are resolved will depend on the future direction of our country.

Cindy Hounsell

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"Don't Say No" to a Retirement Plan

Samantha is a research assistant for a Washington, D.C., non-profit organization. This is her first "real" job out of college. She is 24 years old, and has been working for almost a year earning $27,000.

She has a great retirement plan, but does not realize how fortunate she is and has no basis of comparison. Retirement is pretty much a mystery. In fact, her retirement packet was sitting in her desk for almost a year! When we asked her why she hadn't opened the packet, she told us that it was a combination of fear, ambivalence, and pure dread. She knows she *should* have opened it, but something was holding her back.

Samantha did not believe the retirement benefits would really benefit her. She did not believe that retirement was something young people had to worry about.

Open the Envelope!

The benefit envelope was scary to Samantha for two reasons. First, she didn't think she would understand the information inside: "It's like it's in a foreign language or something," she said. "I don't want to get into something I don't understand." She didn't understand the basic terms and she has no concept of investing. Worst of all, she didn't think that this was anything that she could learn.

After listening to the benefits of compound interest and the tax benefits of saving through an employer retirement plan, Samantha flooded us with questions. Her questions were basic coming from someone with almost no exposure to investing and money management:

"Where does the money go when I invest it? How do I decide where to put my money? How do I get it back? Could I lose everything I put in? What if I quit this job?"

The second reason Samantha had not opened the envelope had to do with the fact that she did not really believe that the retirement benefits would really benefit her. She did not believe that retirement was something young people had to worry about. She had also assumed that the retirement plan would require her to contribute an amount that she thought she couldn't afford in order to get a "match." The problem was that her assumptions were entirely uninformed—because she hadn't opened the envelope!

Turns out that Samantha was eligible to receive 7% of her salary in a 403(b) plan, without doing anything at all! A 403(b) is the nonprofit version of the 401(k). But Samantha wasn't sure if she had filled out the paperwork to get this 7%. Had she missed out on an entire year of free money?

Luckily, her employer's automatic enrollment plan had enrolled her using an automatic "default" allocation.

After learning about the free $1890 match, Samantha's eyes lit up. Encouraged by the progress of the account she didn't even know she had, she decided to make contributions herself. She is now contributing $25 each paycheck and finds it all much more interesting.

Did You Know?

About a quarter of workers who are eligible for 401(k) plans don't participate.

Winter 2005

WISERWoman Says

A Special Insert to the Newsletter from the Women's Institute for a Secure Retirement

Women and Social Security—Just the Facts

According to a recent federal government analysis, when it comes to retirement, economic security and health status, serious inequalities persist between the sexes, income levels, and racial and ethnic groups.[1]

Reform of Social Security should take into account the starkly different prospects for a healthy, financially secure future between men and women, between upper income and low and middle income workers, white workers and minorities, widows, disabled Americans and children with a deceased parent.

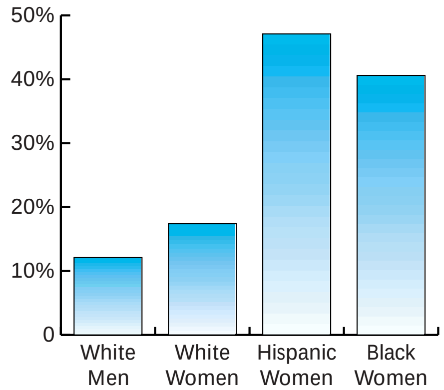
Women are major stakeholders in this debate:

- Women are **58%** of the population over age 65; and **69%** of the population over age 85.

Women are more likely to live in poverty in old age and to live alone.

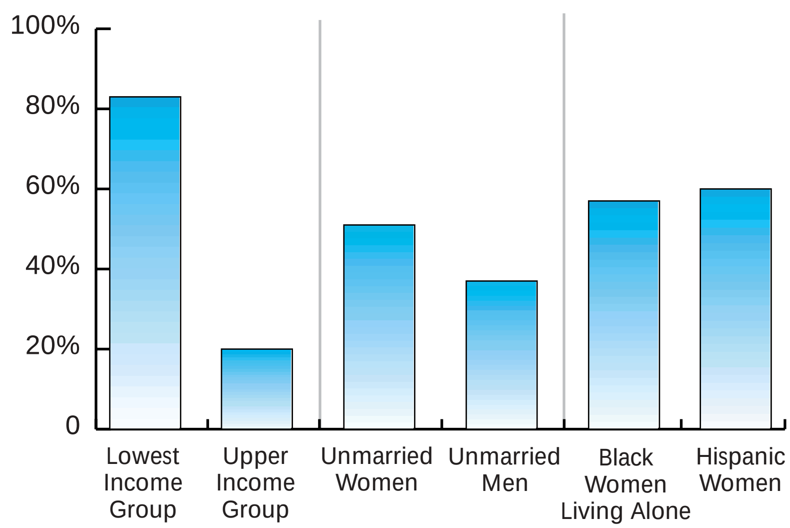
- In 2002, white men living alone had a poverty rate of **12.1%**, while white women living alone had a poverty rate of **17.4%**. Hispanic women living alone had a poverty rate of **47.1%** and for black women it was **40.6%**.
- Older women are less likely to have a spouse to share living expenses with or rely on for financial support. In 2003, among seniors age 65-74, **78%** of men were married compared to **56%** of women. By age 85, only **14%** of women are married compared to **59%** of men.

Percentage of Americans Who Live in Poverty in Old Age and Live Alone



- Low and middle-income workers, particularly women, rely heavily on Social Security for income. In 2002, older Americans in the lowest income group relied on Social Security for about **83%** of their income while the upper income group relied on it for only about **20%** of income. In 2000, unmarried women relied on Social Security for **51%** of their income compared to **37%** for unmarried men. Black women living alone relied on it for **57%** of their income and Hispanic women for 6**0%**.
- Women earn less money and will have less money than men to invest in private accounts under privatization proposals. In 2004, the median earnings for women was **$30,724** while men's median earnings were **$40,668**—a difference of **$9,944** or about **25%** less than men earn.
- Because of their work patterns/caregiving, women are less likely to earn a private pension than men. Only 30% of older women receive a pension compared to 47% of men.

Level of Reliance on Social Security Income.



1 *Interagency Forum on Aging Related Statistics, Older Americans 2004: Key Indicators of Well-Being, p. XIV*

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continued from page 1

If no changes are made to Social Security, full benefits can be paid until about 2042. After that, Social Security will be able to pay about 73% of promised benefits. Although this is a far cry from "going broke", it is important to address this shortfall so that future generations continue to collect benefits.

For seventy years the government has kept its long term commitment and kept the program stable.

What does "privatization" of Social Security mean? Privatization refers to proposals that would allow workers to divert a portion of the current payroll taxes into accounts invested in the stock market. Supporters of individual accounts would like to see contributions of 4% of a worker's payroll tax, up to $1,000 annually, diverted into the accounts.

The guaranteed benefit under Social Security would be reduced and workers would rely on their accounts to make up the difference. However, President Bush has made it clear that anyone 55 years and older would not be subject to a reduction in benefits.

Stock market returns can be attractive, but they carry a risk. As is always the case with the stock market, there would be winners and losers. There would be no guarantee for stock market losers, except perhaps a minimal guarantee for lifetime low-wage earners.

There is no current plan for how current disability and survivor benefits would be maintained under privatization.

What are the options other than privatization?

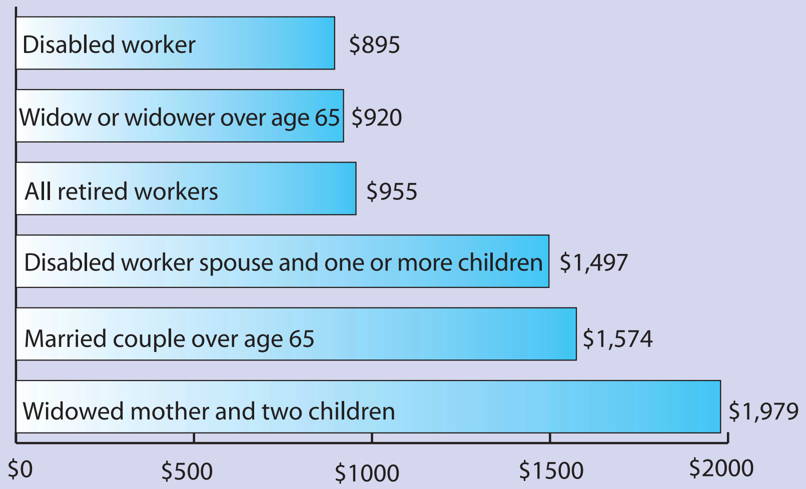
Those who oppose individual accounts generally support a mix of options including tax increases and benefit cuts to put the system on sounder financial footing. Social Security has experienced funding problems in the past, and the issues were effectively dealt with through combinations of gradual payroll tax increases and benefit cuts over long periods of time. Most opponents of privatization agree that a similar approach can work to protect Social Security again.

Other options:

- The most popular way to fix the gap in funding would be to tax those earning over $90,000—solving about 40% of the problem. While President Bush has agreed that increasing the tax on higher earnings is a possibility, the Republican led Congress is not likely to agree to *any* new tax increases. That means that another talked about option of raising the payroll tax by 1/2% and splitting it between the employer and employee is not likely.
- Another option would gradually increase the payroll tax and establish a new surtax of 3% on income over $90,000 annually.
- Other options advocated by former Social Security Commissioner Bob Ball would gradually slow down

ABCs of Social Security *continued on page 5*

Average Monthly Social Security Benefit



Divorce Takes a Bigger Bite out of Retirement Assets

Going through a divorce will now be more costly to individuals who are splitting retirement assets. Under the law, a qualified domestic relations order, or QDRO, must be sent to a plan administrator with instructions on how retirement assets are to be split between a divorcing couple. Previously, employers paid the administrative costs of implementing the QDRO, or billed all plan participants equally as part of the overall costs of administering a 401(k) plan.

Last year, the Department of Labor issued a ruling allowing companies to bill the administrative costs of splitting retirement assets to the individuals involved in the divorce and to deduct the fees from the assets of the retirement account being split. Fees can range from hundreds of dollars to thousands, depending on the complexity of the QDRO. If the employer hires an attorney to determine the legality of an order or to handle on-going disputes, the fees can increase to tens of thousands of dollars. These fees are in addition to whatever you pay your own attorney to negotiate the QDRO with your spouse. These fees can take a big bite out of retirement assets.

Minimize Costs

Some large employers are offering minimal fees if plan participants use a standard QDRO form. If you know anyone who is going through a divorce and trying to divide the retirement plans tell them to ask the plan administrator if you will be charged administrative fees, and if so, what steps you can take to minimize the costs. You may be able to minimize costs in these ways:

- Ask for the standard form;
- As much as possible, work out disputes with your spouse and their attorney in advance and without involving the plan administrator;
- Make an agreement with your spouse to split any administrative costs associated with implementing the split of retirement assets.

ABCs of Social Security Reform

continued from page 4

the cost of living adjustment (COLA) increases, add new workers to the system by including newly hired state and local government employees in Social Security, designate revenues collected from an inheritance tax on estates worth more than $3.5 million to be credited to the Social Security trust fund, and increase the taxable earnings subject to the Social Security tax from the current 85% of wages to 90% of wages.

- Also mentioned by some experts is increasing the retirement age beyond the scheduled increases.

What are the potential benefits of private accounts?

The supporters of privatization say that the best way to address the future shortfall of Social Security is to invest part of the workers' taxes in the stock market, and increase the rate of return on their money, beyond what they can expect from Social Security. Privatization will allow individuals to take advantage of higher stock market returns and the miracle of compound interest. The result, according to supporters will be higher benefits than Social Security provides and also a system that is fairer to younger workers. Supporters say that, without privatization, the options for maintaining Social Security's financial stability are to increase taxes and cut benefits, as well as government benefits that are inferior to what the private markets can provide.

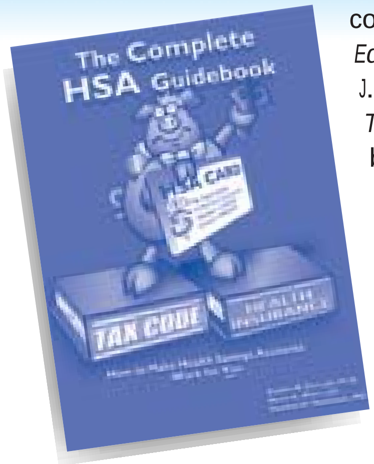
What are the downsides of privatization?

When payroll taxes are diverted into individual accounts, less money flows into the Social Security system. This worsens the funding shortfall of Social Security and would require large tax increases or deep benefit cuts to offset the funds diverted into individual accounts. The transition costs of changing to a system of private accounts is estimated to be between $1 trillion and $2 trillion dollars over ten years. Although the President has promised no benefit cuts for current or near-retirees, there is a great deal of concern about the effect of benefit cuts on low and middle-income workers, particularly women. Also, if the stock market does poorly, workers will have to absorb the losses.

Did You Know?

Currently, about 4 million children receive Social Security Benefits.

New Book Explains Everything You Need to Know About Health Savings Accounts



Need to understand how to navigate the basics and complexities of Health Saving Accounts? *Health-Equity's* CEO Stephen Neeleman, M.D., Hazel Witte, J.D., and Sophie Korczyk, Ph.D. have co-authored *The Complete HSA Guidebook*. This 200-page guidebook covers a variety of topics, from choosing an HSA provider to the logistics of the HSA Law. The authors wrote the *Guidebook* to help consumers and business leaders better understand and use HSAs.

Purchasers of the book are also entitled to a number of benefits free of charge. This includes a one year membership to the *Guidebook's* website, updates regarding HSAs via the IRS and Department of Treasury, an electronic version of the book available through a "members only" website and updated sections of the book from the 2005 edition.

To learn more about this publication visit http://www.hsaguidebook.com/handbookhome.asp or call 1-866-346-5800.

WISER's Mission

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 though research, workshops, and partnerships.

Next Issue:

- **Long-term Care Insurance and Investing**

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