Women Face Unique Challenges When Planning for Retirement

Retirement planning is important for everyone, but it`s especially important for women.

Unique Challenges Faced by Women in Preparing for and Managing Their Retirement Years
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The Challenges for Women
Retirement planning is important for everyone—but it's especially important for women. The issues faced by women in particular are compounded by a number of factors, the result of which paints a startling post-retirement picture for millions of women who have worked their entire lives in one capacity or another.

Various studies point to what will be a huge burden on our society: some indicate that 75 percent of the baby boomers are not prepared for retirement. The average amount in 401(k) accounts for the group closest to retirement (ages 55-64) is anywhere from $21,000 to $110,000 depending on the study. According to the most recent Federal Reserve Board study, the typical account balance is $83,000.

The solution heard most these days is that boomers will continue to work, which may sound like a good idea. But circumstances may prevent work for some obvious reasons —no access to a job or bad health or, in the case of many women, providing care for a spouse, mother, or a mother-in-law. These negative shocks may cause significant financial consequences.

A recent study by the Urban Institute illustrates a way to measure the financial impact of negative shocks. The paper reviews two 10-year periods for those aged 51-61 and for those aged 70-80. [1] What's surprising is that one-half of adults in the earlier group aged 51-61 experience health problems or frail parents or in-laws, while more than three quarters experience one of these negative shocks: widowhood, divorce, job layoffs, health problems, or the onset of frailty among parents or in-laws.

People who experience these negative shocks end up with less wealth, but when they strike adults who may not have completed their retirement preparations, there is an even bigger financial impact. The study shows that the financial risks are greatest for older women.

Background
For women, the traditional three legged stool of retirement security—Social Security, employer-sponsored pensions, and individual savings, is wobbly at best, leaving them vulnerable to poverty in old age. Over the last decade, a fourth and fifth leg have been added to the stool—earnings, which have now become a significant source of income for the elderly, and Supplemental Security Income or SSI—a joint federal-state

poverty program to help the elderly (and the blind and disabled of all ages) meet their basic needs. Instead of being reassuring, these additional legs show just how precarious the situation is for many who are nearing retirement age, especially since the majority of poor elderly SSI recipients are women.

The reality is that many women rely on the Social Security program as their primary source of income in retirement. For one in four unmarried retired women, Social Security provides their only income. Yet Social Security was not designed to be a retiree's sole source of support. It was only intended to provide a "bare minimum of protection" and its benefit structure still reflects that original intention. That so many retired women rely solely on Social Security for support is one of the major reasons why so many retired women are poor.

Private pensions provide additional income to some women, but less than half of all workers are covered by private pensions. A much smaller proportion of women than men actually end up receiving income from private pensions when they retire. Fewer than one in five women age 65 and over received private pensions in 2000; among this small group, the median annual income from these pensions was only $4,164. [2] While baby boom women are expected to do better than their mothers' generation, the pension gap is unlikely to close significantly anytime soon.

If a woman working today works full time, has high 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 pensions. 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 to contribute to it, largely because she earns less. [3]

Voluntary savings and investments have been promoted by many policymakers as the one solution that will provide the major source of retirement income for most workers in the coming years. But women's lower earnings often leave them with few resources to invest. And in addition, research shows that even those with resources, women often choose not to save or if they do save they do not save enough.

This report is designed to educate policymakers and women about the facts of retirement income and the pitfalls to avoid. It presents an overview of women's income, as well as the employment and caretaking patterns that place women at a disadvantage. It also addresses women's experiences with Social Security, private pensions, and individual savings and investments. The report offers specific recommendations for reform.

The Reasons Women Face Retirement Income Insecurity

The fundamental issues are these: women work fewer years, earn less, live longer, and are likely to live alone in old age, which is highly correlated to poverty. Therefore, while women must plan for a longer retirement, they start off with less income and are left to rely too heavily on Social Security as their primary retirement income source. Women, along with their male counterparts, also tend to lack basic financial knowledge, which is one reason why there is little or no planning for retirement.

In every age group, women on average have lower incomes than men do, but the wage gap is especially pronounced in retirement. In fact, women's average income after the age of 65 is only about half that of men's: the median retirement income in 2004 for women was $12,080 compared to men's income of $21,102. [4] Furthermore, older women are about half as likely as older men to have earnings or pension benefits—and those women who do have these sources of income receive, on average, much less than men do. [5]

The Effects of Women's Work Patterns

Women's work patterns have changed dramatically over the last several decades. In 2000, 60 percent of women were working for pay, up from 37.7 percent in 1960.[6] Today, the majority of women in every age group are in the labor force. The most dramatic change has occurred among women with school-aged children: nearly three-fourths (70.4 percent) of women with children under the age of 18 now hold jobs.[7]

Women work in female-dominated occupations that disproportionately lack pension and retirement savings opportunities, and as a result, they lose out on retirement income. One study comparing the income of unmarried retired women and men found that women have $8,000 less a year in retirement income than unmarried men. A portion of this difference results from women working in female-dominated occupations, and another portion is from earning less while working. The study also found that men working in female-dominated jobs did not lose out on retirement income.[8]

The Effects of Women's Lower Earnings

Women have joined the labor force in record numbers, have more opportunities, and work in many different fields, but there is still a substantial pay difference between men and women. Women continue to work in jobs and industries where women predominate and the pay is low. The industries employing the largest percentages of women are the service and caregiving industries—including hospitals, restaurants, educational institutions, and the retail trades.[9] Recent studies show that women are paid less than men in almost every occupational classification for which data are available. Full-time working women in the aggregate earn 77 cents for every dollar earned by a man.[10]

The median salary for full-time, year-round women workers in 2004 was $31,223, compared to $40,798 for men.[11] The pay gap for minority workers is even larger. While Asian women working full-time earn on average more than white women—$35,975, Hispanic and Black women earn much less: $23,444 and $27,730 respectively.[12] Part of the wage gap between the sexes is the result of differences in education, experience, or time spent in the workforce. But a significant portion of the gap cannot be explained by any of these factors, and may simply be the result of wage discrimination.[13]

A study conducted by the Institute for Women's Policy Research found that working women pay a steep price for unequal pay. The typical 25-year-old woman with a college degree in 1984, who is now in her mid 40s, has lost a total of $440,743 in wages over her lifetime—an amount that could add up to a comfortable retirement nest egg.[14]

The Relationship of Education to Women's Pay

Over the past 30 years there has been enormous growth in the number of women who have completed a college education. In 1970, fewer than 10 percent of all women received degrees. Today, when women are slightly more likely than men to attend college, one quarter have degrees. But statistics also show that pay for many college educated and professional women has not kept up with pay for men in the same profession. Women are earning about 73 percent of what men earn with the same college education.[15] Indeed, a woman with a particular degree on average will earn less than a man with the next lesser degree. [16]

Women as Caregivers

Women remain the primary caregivers in our society, and they are spending a significant part of their adult lives providing it. Whenever a sick child, an ailing spouse, or a parent requires care, it is most often the mother or the daughter who provides for it - even if that means leaving whatever she is doing at the time.

More than half of informal caregivers report that their careers are adversely affected by this role. Women far more than men compromise their work schedules by moving in and out of the labor force, experiencing breaks in their work histories. _

Caregiving is also a factor for why more women work part-time. Because of the greater responsibility for caregiving, women are more likely than men to cut back on their hours of employment to meet family needs. A quarter of working women worked part-time in 2003, compared to about 11 percent of working men.[17]

The consequences are serious: part-time employment is associated with lower wages, fewer opportunities for promotion, and a lower likelihood of benefits.

Neither public nor private retirement programs grant credit for caregiving years in calculating retirement benefits. Lost work years are factored in as zeros, which significantly reduce the final benefit amount. However, Social Security's spousal and survivor benefits are designed to provide benefits to a spouse with a lower lifetime work history.

In addition to the financial consequences of women's moving in and out of the workforce, including the loss of pay increases, promotions, training opportunities, and career advances, there are more subtle consequences as well. These include lost opportunities for compounded returns on 401(k) matching contributions and a reduction in saving and investment opportunities.

Workplace benefits seldom provide support for dependent caregiving, and while federal legislation does require some employers to allow employees to take leave to care for extended family members, the option is viable only for those families whose budgets can accommodate unpaid leave.

Since caring for the family is not recognized in this country as an economic contribution, women lose out by bearing the main share of this responsibility. Research shows that the economic consequence for single women who care for their elderly parents is a likelihood of life in poverty: caregivers are 2.5 times more likely than non-caregivers to live in poverty. [18]

Policymakers have begun to focus more attention on the need for support of long-term caregivers. This is a step in the right direction. However, while policymakers continue to study this issue, women will continue to take part-time jobs, take time off work, or retire early in order to provide care for their family members. While federal support for caregiving may ultimately improve, it is important in the meantime for women to consider the consequences of their potential role as a future caregiver when determining their retirement income needs.

Marital Status A woman's marital status is a significant factor in determining what her income will be when she retires. Women with the most comfortable retirement incomes are those who are married and living with their husbands. By contrast, women with the lowest incomes are those who are the head of households and live alone. In 2002, just over 50 percent of married couples ages 65 and over had incomes of $35,000 or more. Fewer than one in fifteen women aged 65 and living alone had incomes of $35,000 or more. In fact, over 61 percent of women living alone after age 65 had income under $15,000. [19]

In 2004, 57 percent of women aged 65 an older were single. They were either widowed (43.5 percent), divorced (8.9 percent), separated (0.9 percent), or never married (3.7 percent). In contrast, only 26 percent of elderly men are single. [20]

Unfortunately, many older women find that marriage is no protection against poverty. After counting on their husband's benefits to support them in retirement, they often discover that widowhood or divorce can sharply reduce their income in old age.

The Impact of Widowhood

Women are far more likely than men to be widowed. This is partly because women have a longer average life expectancy, and partly because men tend to marry younger women. Men are also much more likely to remarry after widowhood. Today, an average American woman's life expectancy is 80.1 years, compared to 74.8 years for men. [21] If a woman lives to age 65, she can expect to live until age 84 or 85—about three more years than a man age 65 can expect to live. [22] Between the ages 75-84, only 34.2 percent of women are married with their spouse present. For women aged 85 and older, only 13.1 percent are married with their spouse present. In contrast, 70 percent of men aged 75-84 and 54.1 percent aged 85 and older are married with a spouse present. [23]

Most married women are unaware of the reality that they might become widowed at a relatively young age. One-third of widowed women become widows by age 50 and nearly 46 percent are widowed before age 65. [24] With the death of a spouse, women often experience a precipitous decline in income—a husband's traditional pension benefits are typically cut in half, and even Social Security income drops sharply for the surviving spouse.

The Impact of Divorce

For married women, divorce is also a threat to economic security. In 2003, 12.2 percent of men and 15.9 percent of women in their early 60s were divorced. With this divorce trend expected to continue, women are at risk for not only a decline in their standard of living but the likely loss of future retirement benefits. For example, under a defined benefit pension plan, a married woman has a legal claim on her husband's benefit. With traditional pensions on the wane and defined contribution plans on the rise, this safeguard is stripped away; married women currently have no legal right to control how 401(k) plan benefits are paid. [25]

It is well known that divorce can have an immediate adverse impact on a family's economic status. But it is less widely recognized that divorce can also negatively affect a woman's retirement income. Although a pension that is earned during a marriage is considered to be the marital property of both spouses, state laws do not automatically require that pension assets be divided at the time of divorce. Even though federal law has mechanisms for splitting private pension benefits, a woman first needs to be awarded a share of the pension by the court at the time of the divorce. Then she needs to make sure that the pension plan recognizes her right to a share of the pension. However, the attorneys and judges involved in the divorce may lack the skills required to properly address this. A woman can wind up losing her share of her spouse's pension if she is unaware of her rights, has an uninformed attorney, or a judge who is not familiar with the division of pensions.

Attorneys and judges need to become better educated about the existing regulations and requirements of the private retirement system pertaining to divorce, and women need financial education to help them make better financial decisions before they divorce. For example, women going through divorce often take the family home as their primary asset while leaving the pension to their husband. The impact is noticeable on the increasing number of divorced women at or near retirement who are forced to stay in the workforce, because they lack sufficient resources to retire. [26]

With respect to Social Security, a divorced woman is entitled to benefits on the basis of her former spouse's earnings if she is at least 62, unmarried, and the marriage lasted at least 10 years. However, the level of benefits for divorced women is low. In 2003, the average monthly benefit for a divorced wife of a retired worker was $614. If she survives her former spouse, she is treated the same as a widow; the average monthly benefit for a surviving divorced wife was $905.50. [27]

Poverty Risks for Older Women

Despite the overall decline in poverty rates among older Americans during the last several decades, many older women remain poor; in 2004, 12 percent of women aged 65 and older were poor compared to 7 percent of the men in this age group. [28] The likelihood of a woman being poor in retirement increases with age.

Older unmarried women and minority women are especially at risk. Approximately one in five unmarried elderly women is poor. [29] The poverty rate for single black women over age 65 is 40.8 percent and for single Hispanic women it is 41.5 percent—more than twice the rate of white women. [30] (In 2004 the poverty threshold for an individual age 65 and older was $9,060.)

The Social Security Administration projects that in 2030, the percent of women aged 65 or older who have

never married or who are divorced (and not remarried) will double. It is important for policymakers to understand and address the needs of this at-risk population when considering changes to Social Security, pensions, and savings policies. Experts concerned about the further reduction of poverty among the elderly are looking at the impact of proposed changes to the current Social Security program. In the past, the largest decline in the poverty rate among the elderly coincided with an increase of about 35 percent in the average Social Security payment. Unless their needs are kept in mind, never-married women, divorced and widowed women, and minority women could particularly be at risk of losing the gains they have made against poverty.
Women and Social Security
Social Security has been the nation's single most successful social program, helping millions of women and men escape poverty in old age. The Social Security system was established in 1935 to provide American workers with protection from the loss of wages due to retirement; it was amended in 1939 to allow benefits to be paid to wives, widows, and children.

Social Security is a social insurance program financed by a federally-administered system of payroll taxes whereby current workers pay for the benefits of the older generation. In exchange for paying into the Social Security system during their working years, workers are promised benefits for themselves and eligible family members in retirement. Cost-of-living increases are provided to prevent inflation from eroding the value of benefits over time.

Because Americans are living longer, the number of retirees will grow significantly faster than the number of workers supporting the system with their payroll taxes. These trends will affect the financial well-being of future retirees by placing a strain on the programs they depend on, Social Security and Medicare.

Social Security is the predominant source of retirement income for millions of older women. In fact, women make up 57 percent of adult beneficiaries.[31] For one in four older women, Social Security is the only source of income in their retirement. Without Social Security, the poverty rate for women would be significantly higher, increasing from about 12 percent to more than 50 percent.[32]

Broadly speaking, Social Security is gender neutral: women and men with identical work histories and earnings can expect to receive the same benefits. But differing employment patterns of women and men create a gender gap in Social Security benefits. According to a recent report, the average benefit for retired women workers in 2004 was $826 a month, considerably less than the $1,076.50 received by men.[33] The average retired workers' benefits were about 10 percent lower for black women ($765.50) than for white women ($836.50), while Hispanic women received even less ($554).

There are three categories of Social Security benefits to which an older woman may be entitled: (1) a worker benefit based on her own earnings record, (2) a spousal benefit equal to a maximum of one-half of the worker's benefit paid to a spouse (or a former spouse) of a retired worker, or (3) a survivor's benefit paid to the wife (or former wife) of the deceased worker and based on the worker's earnings.

If a woman receives a Social Security benefit based on her own earnings record, it is calculated on the basis of a 40-year work life. The 35 years with the highest earnings are averaged and the five lowest earning years are removed from the calculation; a zero is entered into the calculation for each year that she is not in the labor force. Each zero year reduces a woman's lifetime benefit calculation. Among new retired-worker beneficiaries, women average 13 years of zero earnings from age 22.[34]

Spousal Benefits
As noted earlier, upon reaching retirement age, a woman who is married, or a divorced woman who had been married for at least 10 years, may be entitled to spousal benefits. The maximum spousal benefit is equal to half of a husband's, or former husband's, retired worker benefit. She may receive the greater of her own worker benefit or a spousal benefit, but not both. While a woman who has earned benefits through her own work history as well as through spousal eligibility is considered "dually entitled," that only means she qualifies

for one of two benefits. Women with fewer than 40 credits (10 years of covered work) are entitled only to spousal benefits, assuming their spouses are eligible.

Women often receive spousal benefits rather than their own retired worker benefits. This is because the spousal benefits are higher than what they could have received from their own earnings records. The growth of dual-income families in the last 30 years means that a majority of Social Security-eligible women will be “dually-entitled” in the 21st century. Some analysts see an inequity here, since “dual earner” couples may contribute more to the system but actually receive less in benefits than a one-earner couple making the same income. This is an area that needs to be modernized to ensure that couples are not paying additional taxes for no additional benefits.

Survivor Benefits—Widowhood and Divorce Most women see their family Social Security benefits drop precipitously when they become widows. Survivors may collect their own retired worker benefits, or their spouse’s full benefit amount, whichever is larger. The additional 50 percent spousal benefit, which was paid while the husband was living, is no longer paid once a woman is widowed. In 2004, the average non-disabled widow of a retired worker received $920.20 in monthly benefits. [35]

A divorced woman whose former husband dies (and who was married for at least 10 years) receives the greater of his full benefits or her own retired worker benefit. However, because the average length of a marriage that ends in divorce is seven years, many divorced women receive no benefit at all.

Recommendations for Reform

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. In addition to the broad reform debate centering on Social Security’s fiscal health, policymakers should take action to enact the following reforms of specific benefit to women:

- Eliminate the motherhood penalty by granting family service credits for up to five years spent out of the full-time workforce to care for children.
- Increase the widow’s benefit from 100 percent of the couple’s higher-earner benefit to 75 percent of the couple’s combined benefit, to address the fact that many older women are not poor until their spouses die.
- Increase benefits for lower-earner divorced spouses from 50 percent of the former spouse’s benefit to 75 percent. Reduce the number of years of marriage needed to qualify for the spousal benefit from the current 10 years to seven, as long as combined marriage and work history totals 10 years.
- Expand the special minimum benefit by changing the calculation formula to increase the minimum benefits, which are designed to compensate low-wage workers—predominantly women who stay in such jobs for most or all of their work lives.
- Support and encourage the continued sponsorship of defined benefit pension plans or a more portable plan with the best features of cash balance plans.
- Encourage annuities as an investment and distribution option in defined contribution plans and IRAs. This would address the need for basic spousal protections in 401(k) plans and rollover IRAs. While this is a complicated issue with a lot of contention among the players, annuities would provide the protection for spouses without regulating 401(k) plans in a way that employers would find objectionable.
- Encourage automatic enrollment and other pro-saving defaults in 401(k)-type defined contribution plans, with appropriate backstops to ensure that employers continue to have an incentive to increase participation by non-highly compensated workers.
- Analyze the coverage rules to identify possible opportunities to increase women’s coverage.
- Expand, extend, and simplify the Saver’s Tax Credit to provide a financial incentive for moderate and lower income workers to save for retirement.

- Make sure that asset limits in means-tested programs do not penalize lower income workers who save for retirement.
- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.
- Address spiraling health care costs, including the cost of long-term care, recognizing that there can be simply no retirement security in the absence of health reforms.
- Offer employer matching contributions, provide strong default options in plans, encourage maximum participation, and educate workers on retirement planning and investment considerations. Customized retirement planning information can be particularly helpful.

Join a growing trend and implement “auto pilot” plans. These plans allow for employees to opt out of preset defaults, but if they don’t, the defaults get employees into the plan and saving, often at a rate that goes up each year.

- As part of auto pilot plans, employers can set default investment options that use balanced funds or life-cycle funds, versus defaulting all participants into a low-risk money market-type investment. The employee can always override the default, but if she doesn’t, these choices can provide reasonable results.
- Offer payroll deduction savings opportunities in the absence of sponsoring a qualified retirement plan.

Social Security is women’s first line of defense against poverty in old age. Clearly, women have a strong stake in ensuring the financial solvency of the program and making sure that the range of protection remains. Women need to stay focused on the proposals and the debate to reform the current system.

Employer-Sponsored Pensions and Retirement Savings
Employer-sponsored programs have traditionally been an important part of retirement security. Increasingly, employers are playing a dual role in retirement security: providing retirement benefits and providing work options so that people can continue to work, often in a different role. Both pensions and continued earnings are important to the economic security of Americans. Women benefit both as employees and as wives of employees.

Employer-sponsored benefits include pension plans in which the employer contributes for all participants, programs that give employees the opportunity to save (often with an added employer contribution), and retiree health. Americans are much more likely to save when they have access to employer-sponsored savings program such as a 401(k) plan (or 403(b) plan for not-for-profit employers and 457 plan for some governmental employers) than when they are asked to save purely on their own.

Employers provide retirement plans for a variety of reasons. They help attract and retain employees and help long service employees exit the labor force with dignity. Without retirement plans, many older persons would be seeking jobs, be unwilling to retire, or both. In some cases, older workers would serve as needed talent, and in other cases, it would be a difficult situation for both employers and employees. All retirement plans help enable retirement, and qualified retirement plans help employees accumulate assets in a tax efficient way.

Types of Plans
Defined Benefit Plans

Private retirement plans are divided into two broad categories: defined benefit plans and defined contribution plans. A defined benefit plan requires employers to pay retirees a certain amount—the size of the benefit is generally based on salary level and years of employment. A plan administrator makes all the decisions regarding the investment of pension contributions, and the employer bears all the risk of these investments—if the level of funds falls short of what is needed, federal law requires the employer to make up the difference.

An important option of a traditional pension is the opportunity for married employees to choose a spousal benefit. In return for a somewhat lower benefit, a surviving spouse will receive a monthly benefit for life after the retired worker's death. This choice has important implications for wives, who typically outlive their husbands. The spousal benefit option can only be given up with the written permission of the spouse.

Defined benefit plan sponsorship is on the wane. As of September of 2005, 627 of the Fortune 1000 companies sponsored traditional defined plans and 115 have been terminated, frozen, or closed to new workers.[36]

Defined Contribution Plans
The prevailing trend over the past two decades has been for employers to discontinue offering traditional defined benefit plans in favor of the more portable defined contribution plans and, the most popular plan of all time, the 401(k). In 1993, 32 percent of private sector workers participated in a defined benefit plan while 35 percent participated in a defined contribution plan. Those numbers by 2005 slid to 21 percent in defined benefit plans and grew to 42 percent in defined contribution plans.[37]

In a 401(k) plan, workers contribute part of their earnings to an individual account, deferring income taxes on their contributions and gains earned until the money is withdrawn at retirement. In some plans, but not all, employers also contribute an amount equal to a certain percentage of what the employee puts in. Only if there is an employer contribution can 401(k) plans truly be counted as part of the pension leg of the retirement portfolio. Otherwise, these plans are simply tax-advantaged opportunities for individual savings that are part of the savings leg of the retirement stool.

One major advantage of these plans is their "portability"—employees can take the amount contributed when leaving a job and roll it into another retirement plan or into an individual retirement account. Plus workers can take their employer's contributions as long as they stay the required length of time to "vest," either three years for "cliff" vesting or six years for "graded" vesting.

One disadvantage of 401(k) plans is that earnings are an important factor in determining participation. Aside from the obvious—lack of money to contribute—many low income workers are concerned about having access to their funds, a major reason for deciding whether or not to participate in a 401(k) plan.[38] Participation varies significantly as income increases. The voluntary aspect of 401(k) plans requires education to inform employees about the importance of saving for the future and for more plans to offer automatic enrollment.

While the retirement system is moving toward requiring more action and responsibility on the part of individuals, there are several major gaps in the ability of Americans to deal with this responsibility. Between 10 and 20 percent of the population does not participate in basic financial vehicles such as bank accounts. Of the population currently covered by 401(k) plans, a significant percentage does not make choices and does not participate in planning. The public at large, including those who do participate in 401(k) plans, includes many people who do not have needed knowledge and who are operating from misperceptions.

Women are more likely to work part-time, which further reduces annual earnings and eligibility for workplace benefits. Working women not only earn less but are also less likely to work for an employer that offers a retirement plan. Even if they do, women are less likely to vest in a retirement plan because they typically have shorter job tenure. On average, women stay 4.7 years in a job, compared with 5.1 years for men.[39] Traditional defined benefit pensions require employees to remain on the job for five years in order to vest and receive benefits at retirement.

Women are also more likely to work for small firms, where employer-sponsored retirement benefits are not common. Congress has passed a number of laws to increase pension coverage among small firms by making the requirements simpler. Education is an important aspect of small firm coverage: specifically, convincing small firm employers that they will need assets beyond the value of their business for their own retirement.

Women's Income from Pensions

Even when women work at jobs that have pension coverage and participate in a pension plan, the amount that they receive in retirement income from their pensions will be less because their earnings are less. Many more women may be covered during their working years, but it is the lower income amounts that are still of concern.

As a result of lower income during their working years, time out of the workforce, and the inability to earn or vest in a pension during their working years, women have a much lower income during retirement.

While there is some evidence indicating that more women are working full-time, women still face greater risk of poverty in retirement. Because of the popularity of defined contribution plans, more women and men have retirement benefits that are not guaranteed, have no cost-of-living adjustment and are based upon smaller account balances and on investments that are subject to the returns of the stock market.

Lump-Sum Distribution Dangers for Women

With the growth of the more portable 401(k) plans, employees who leave an employer prior to retirement age typically receive a lump sum cash payment. Lump sum distributions can be rolled over into an Individual Retirement Account (IRA) or another tax-qualified savings vehicle.

Most 401(k) plans do not offer an annuity or lifetime payout option, which makes it harder to manage retirement savings to provide income over the course of retirement. In 2003, only 17 percent of large employer 401(k) plans offered an annuity payout option. [40] Even in defined contribution plans that offer an annuity option, most participants choose to take that benefit as a lump sum payment, increasing the risk that the individual will either mismanage the amount or spend it on nonessential expenses fairly early in retirement, leaving less for later years.

Receiving pension benefits in a lump sum can have serious implications for women. If benefits are not carefully invested—or if benefits are cashed out and spent—little or no income will remain for retirement.

Recommendations for Reform

Given the critical role employer-sponsored retirement benefits play in the income security of older Americans, policymakers should take the following steps:

Employers should keep in mind mistakes that employees are likely to make if left on their own for retirement. The following ideas provide a basis for employer action:

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