Baby Boomer Women:
Secure Futures or Not?

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Easing the Strain on Boomer Women in Retirement: Why Efforts Must Begin Now

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Policymakers have long ignored the plight of boomer women approaching retirement with insufficient resources. This needs to change, and quickly. Women constitute a majority of the elderly, and their numbers will grow dramatically as the sizable boomer cohort ages. Women's life histories and the way they interact with employer-sponsored benefit plans, individual savings and insurance plans, Social Security, and other social safety net programs often create financial shortfalls.

Policymakers have long ignored the plight of boomer women approaching retirement with insufficient resources. This needs to change, and quickly.

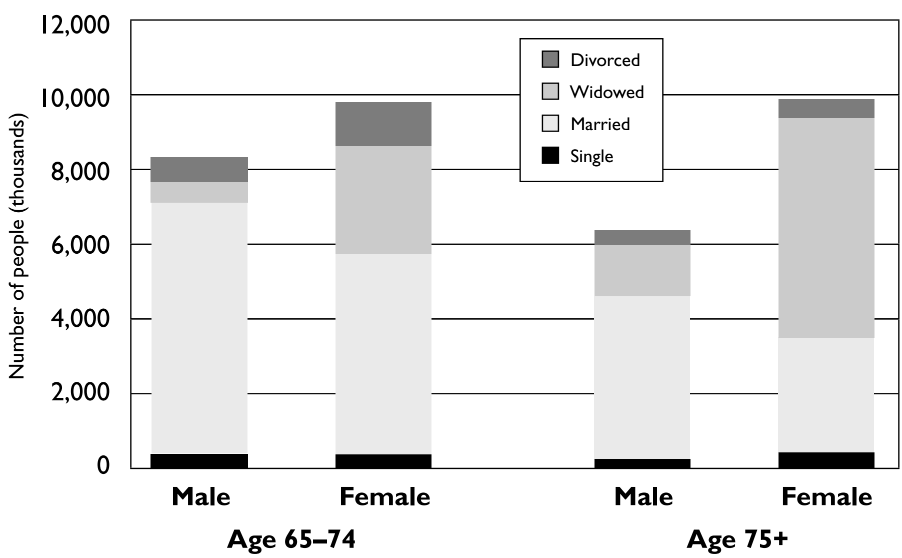
Boomer women are similar to the groups of women who came before them in that they have long life expectancies and are likely to end up alone, most often widowed. But boomers are also in a class all their own. They are more likely to have worked longer outside the home, to be divorced, and to have no or fewer children who can help them later in life. Moreover, those who do have children have often delayed saving for retirement in order to pay for children's education instead. Therefore, boomers—and boomer women—must plan differently than their parents and grandparents.

The unprecedented size of this cohort has placed unusual pressures on public and private retirement systems, and a declining ratio of workers to retirees is already adding to the strain. Much needs to be done as a result: Policy discussions are focused on proposals for major change affecting both social insurance and private benefits. Yet, these discussions often take place without focusing on women's particular needs and circumstances. This article focuses on what policymakers should do to improve the circumstances of boomer women as they age.

Personal Context and Key Demographics

Women can expect to live at least five years longer than men, and often they live their last years alone. Often they work fewer years than men and earn less. Most couples have adequate resources while both are alive. Many, however, are not knowledgeable about financial planning, long-term care, and caregiving support. The interaction of these factors often means inadequate resources in their final years. Moreover, as the boomers reach age 75 and over, there will be many more women than men, and the largest segment of women will be widows. (See Figure 1.) Boomer women will be much more likely to remain alone because widowed elderly men often remarry younger wives, and widowed elderly women are much less likely to remarry.

Figure 1: Marital Status by Age & Sex, United States 2003



Source: U.S. Census Bureau, Statistical Abstract of the United States: 2004–2005, Table No. 53.

In addition, boomer women who are caregivers and family managers for part of their lives will be out of the labor force for a period of years, resulting in lower retirement benefits. Boomer women are more likely to have worked than previous groups of women, but even those who work regularly will often have smaller earnings than their husbands because of their greater family responsibility. As a result, typically more than half of the family retirement resources will be linked to the husband's work history. Therefore, family decisions at various life stages concerning the sharing of retirement assets will critically affect the security of boomer women in retirement just as they have affected the groups before them. Boomer women have a better chance of having some employer-sponsored retirement savings based on their own work history, but sharing is still important since it is unlikely that these amounts will be adequate.

Family decisions at various life stages concerning the sharing of retirement assets will critically affect the security of boomer women.

Often, a couple will be saving or earning the right to benefits during some years, but they will no longer be a couple by the time benefits are being paid. As long as they stay together and both are alive, things are usually fine. However, the nonworking and/or lower-earning spouse (usually the woman) is very vulnerable in divorce since the higher-earning spouse (usually the man) has earned most of the pension benefits in his name, and there is no automatic allocation of pension credits to the caregiving and family-managing spouse in divorce. The wife is also vulnerable in the event the husband dies first, depending on the decisions the couple made about survivor benefits and assets. In such situations, legal requirements (i.e., spousal rights), decisions about benefit payments made at retirement, and decisions when a couple divorces are critical since they define whether and how the pension assets will be used to protect the wife.

Social Security, meanwhile, pays benefits to workers, spouses of workers with no or lower earnings, widows, and divorced spouses. Spousal benefits are 50 percent of the worker's benefit and only apply to people who did not earn at least that much from their own work. Widow's benefits equal 100 percent of the benefit of the deceased spouse and again only apply to people who did not earn that amount from their own work. A divorced spouse who was married at least 10 years also may get Social Security benefits after divorce. These benefits work well for traditional single-earner families who stay together for life and for some divorced women. The system in question was designed to meet the needs of family structures that prevailed before 1950, but it does not adequately address the diversity of family structures today. The Social Security system does not recognize unmarried couples, and partners in these couples do not get any spousal, widow, or divorce benefits. Social Security does not work as well for women who are in and out of the labor force frequently, or for dual-earner families with close to equal earnings.

Young and Old Boomers Differ Considerably

Boomers can be thought of as being in two different groups: early boomers born between 1946 and 1955, and late boomers born between 1956 and 1964. Early boomer men have generally enjoyed good employment options and done very well. Early boomer women competed for the same jobs, and while some have fared very well, others have been subject to a great deal of employment discrimination. Late boomer men have not had the same range of work choices open to them and, consequently, have not been as successful as early boomer men and have not earned as much. Late boomer women are likely to have worked for more years in the paid labor force. As late boomer women have competed with late boomer men for the same jobs, they have had an advantage compared with early boomer women in that there has been greater acceptance of women in professional roles and a wide range of occupations leading to higher overall earnings in this group. On the other hand, late boomers are less likely to have defined benefit retirement plan coverage than the older group did at the same age.

Social Security Issues

Clearly, some women—members of both the early and the late boomer cohorts—have never held jobs that entitled them to pension credits, or did not remain in jobs long enough to have vested benefits, and thus will tend to have lower pension benefits than men. Women may leave the workforce to have children or take care of an ailing relative, for instance. These women may receive benefits as wives or former spouses, of course. Like their mothers and grandmothers before them, on average boomer females also receive lower earnings and therefore lower Social Security benefits than their male counterparts. On the plus side, boomer women will also work more years than the cohort before them, somewhat narrowing the gap between male and female working years. This gap will be even smaller for late boomer women than for early boomer women. The median earnings of full-time workers in 2002 were $38,884 for men and $29,680 for women. The median number of years in the workforce for workers retiring in 2000 was 44 for men and 32 for women.[1]

As indicated below, boomer women are more likely to receive benefits at least in part on their own earnings record, but many will also continue to get benefits based partly on their husband's earnings record. As shown in Figure 2, women were nearly 6 in 10 of total Social Security beneficiaries in 2000, and this is expected to remain about the same in 2020. Women's earnings will be the sole basis for Social Security benefits for 46 percent of women in 2020, up from 36 percent in 2000. The percentage expected to receive no benefits other than spousal benefits will drop dramatically from 29 percent in 2000 to 9 percent in 2020. Nevertheless, spousal benefits remain important. Fifty-four percent—more than half—are expected to have a Social Security benefit determined at least in part based on their husband's work record as of 2020. Thus, spousal rights, or the method of determining benefits when they are based at least in part on their husband's work record, will continue to be important for a long time to come.

Figure 2: Percentage of Social Security Beneficiaries—2000 and 2020 Projected

	2000	2020
Men	41.2%	42.1%
Women	58.8%	57.9%

Percentage of Women Receiving Social Security Benefits Based on Earnings History

	2000	2020
Own Earnings Only	36.2%	46.4%
Husband's Earnings Only	29.3%	8.9%
Combination	34.5%	44.7%
	100.0%	100.0%

Source: Calculations based on data from Smith, Karen, "The Status of the Retired Population," Table 3.2 in *Social Security and the Family*, Urban Institute Press, 2002. Projections are calculated using the DYNASIM Model.

Again, women can receive benefits based solely on their own earnings record, as spouses with benefits based totally on their husbands' earnings, or based on a combination of both. Dual-earner families with equal earnings have a particularly difficult problem, since Social Security benefits after widowhood are only 50 percent of the combined benefit, compared with 66.67 percent of the benefit in a single-earner family. This affects the people who receive benefits based on the combination of earnings records, and that group is increasing.

As they age, boomer women are likely to find that, just as is true today, unmarried elderly individuals have considerably lower income than married couples.

As they age, boomer women are also likely to find that, just as is true today, unmarried elderly individuals have considerably lower income than married couples. There is often a drop in living standard at the time of widowhood. Many people do not have any survivor benefits except Social Security. Social Security widow's benefits are lower than required to maintain the living standard of the couple if Social Security is their sole support.

Need for Caregiving and Long-term Care Support

Also important for boomer women's security is the need of many retired Americans for care or help with regular activities of life during part of their retirement. Family members are the most common source of care. Where there is no family member to help, people more often need institutional care, particularly when they need help with basic activities. When the need arises, men will be much more likely to have a spouse or other family caregiver. More often than not, caregivers are women-spouses or other family members available to provide care at home. In contrast, women—who usually outlive their spouses, remain unmarried as widows, and have fewer children to count on—are more likely to need institutional care. Long-term care is most likely to be needed beyond age 80 or as a result of an accident or a serious illness.

Financial Education

Financial education is often cited as the solution to gaps in financial security. While sound personal decision-making is essential for security in old age, many boomer women are unaware of how their financial decisions will affect them and will be ill-equipped to make these necessary decisions in old age. Education is important in helping prepare boomer women to make decisions about the best ways to accumulate assets, the most beneficial financial security products to buy, when to retire, and how to use assets in retirement. However, research increasingly shows that education has limited effectiveness for many Americans, and for this group, the solutions must lie in structuring programs that will be effective regardless of individual decisions and actions.

Policy initiatives are needed to improve security for older boomer women.

What Policymakers Need to Do

Policy initiatives are needed to improve security for older boomer women. Policymakers should support and encourage education, but be realistic in recognizing its limitations. They must stress the maintenance and modernization of government programs, personal incentives, employer incentives, and removal of some of the barriers to employer programs. Such initiatives will improve the climate for private efforts and make public efforts more effective. Most important are steps that would:

1. Reduce barriers to phased retirement and other enhanced options for future employment of boomer women as they age. Phased retirement programs are those allowing employees to move from full-time work and into retirement in steps. They often involve part-time employment and partial payment of pensions. Many more boomers will probably seek such work. Safe harbors in the Age Discrimination in Employment Act and changes to retirement plan regulations would help to facilitate phased retirement. The Internal Revenue Service moved in the right direction when it issued proposed regulations for phased retirement in late 2004.

2. Recognize the value and importance of employer-sponsored pension plans (both defined benefit and defined contribution plans), encourage

employers to offer pension plans with contributions for all, and maintain a strong, private pension system that works without requiring employees to make active decisions. We must support employers who currently offer plans so that they will continue to do so. Defined benefit plans are in a state of decline today due in large measure to regulatory chaos and instability, uncertainty about funding rules, and the fate of new designs like cash balance plans. Policy changes must stabilize regulation and again make it attractive for employers to sponsor plans. Legislation before Congress as of late 2005 would clarify defined benefit plan funding rules, and agreement seems within reach on this legislation. Other proposals address cash balance plan limitations, for instance, but no agreement seems close on this legislation. Defined contribution plans have grown but employers face uncertainty with regard to the future of these plans, and research has shown that when it is totally up to employees to make decisions about savings and investments, many do not choose to join the plans, and many more stay in default options. Safe harbors are therefore required to enable employers to offer "autopilot" savings plans that enroll employees automatically, meaning that workers "opt-out" instead of "opt-in." The goal is to overcome employee inertia. Proposals before Congress as of late 2005 would serve to encourage automatic enrollment, automatic increases in savings, and good default investment options.

3. Extend to state and local government pension plans the same protections for spouses that exist in private-sector pension plans. These include requirements for survivor benefits at retirement and legislation enabling splitting of benefits upon divorce.

4. Maintain Social Security as a system that pays regular income and includes family benefits. This would require various changes needed to ensure financial stability within the current structure, including an increase in retirement age. Social Security needs to be modernized to better handle a variety of family patterns. As changes are considered, we need to look at benefit delivery as well as costs, and to consider diverse groups of beneficiaries. Particular attention should be paid to the needs of groups not served well, including two-earner families and divorced women. We also need to increase Social Security's survivor benefits for dual-earner couples, probably trading off higher survivor benefits for lowered spousal benefits

while both spouses are alive, a proposal that has been discussed by many groups in the past. Other changes to support today's life patterns include providing better for those with multiple marriages and for unmarried but cohabiting couples.

5. Understand that a segment of the population has little earnings and will depend on the social safety net. We must maintain and enhance such programs, which include Medicaid, food stamps, and supplemental social security income.

Conclusion

Women are the majority of older Americans, and their needs are often not well considered.

Women's longer life spans, the family structure, the allocation of caregiving, and the growth of divorce, as well as the special requirements of widows, create a unique set of opportunities and challenges for policymakers, employers, financial service providers, and individuals. Almost all discussion of private pension legislation emphasizes money and risk, rather than benefit structures and their impact on particular groups of retirees. Almost all discussion of Social Security reform revolves around structural changes to meet solvency issues and/or moving to private accounts. Talk about health and long-term care issues tend to focus on costs, the role of the consumer, and system organization. Yet women are the majority of older Americans, and their needs are often not well considered.

It is hoped that this article will promote a greater focus on the specific and complex situation of boomer women in retirement and raise awareness about the importance of focusing on benefit delivery as well as costs. As policy changes are considered that address some of the broader issues facing these systems, it is vital that they be structured in a way that will address the needs of boomer women in old age.

NOTES

1. Alicia H. Munnell, "Why Are So Many Older Women Poor?" *Just the Facts on Retirement Issues*, Center for Retirement Research at Boston College, April 2004, p. 2.