

Baby Boomer Women: Secure Futures or Not?

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Baby Boomer Women: Secure Futures or Not? is a *pro bono* public service publication whose mission is to develop and implement national policies that will ensure a dignified, sustainable quality of life for our nation's aging baby boomer women.

Female Boomers: Retirement's Brave New World

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Women baby boomers have grown up in a much different world than women currently in retirement. Compared with their predecessors, they married later, divorced more, acquired greater education, participated to a much greater extent in the paid labor force, and earned higher wages. Nevertheless, they will receive less in retirement benefits relative to earnings than current retirees given changes to Social Security and the shift to 401(k)-type defined contribution plans.

A Sketch of the Cohort

The oldest boomers—those born in 1946—are turning 60, while the youngest—those born in 1964—are just entering middle age. Despite the enormous size of this cohort, its members share a number of characteristics that differentiate them from women currently in retirement. A significant proportion of boomers never married. When they did marry, they married later. At the same time, they divorced at high rates. Divorces rose sharply between the 1960s and early 1970s, then fell slightly, and finally leveled off at a relatively high rate in the mid-1980s. Therefore,

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when women boomers reach retirement, they are more likely than their predecessors to be never married or divorced. Traditionally, women without husbands have lower household earnings and less retirement income from our earnings-based system. As a result, they experience higher poverty rates. Following this trend, a considerable number of never-married and divorced boomers can be expected to have lower earnings, less retirement income, and higher poverty rates.

Despite the gains in the economic status of boomer women, they will receive relatively less from the retirement income system than their predecessors.

On the other hand, women boomers are better educated and have greater labor force experience than their counterparts in retirement. In the 1950s and 1960s, mothers of young children did not work. By the 1980s and 1990s, young women typically entered the labor force before they married and continued working after they had children. The overall labor force participation rate of women age 20–64 doubled between 1950 and today, with the largest gains occurring among married women. In fact, single-earner couples are now a rare commodity, having declined from 67 percent to 15 percent of all families between 1940 and 1998. These changes in the labor force experience of women are due partly to their increased education: Fewer dropped out of high school, and many more completed college. Not surprisingly, with more education and greater work experience, the earnings of women have also risen. And baby boomers generally have spent most of their labor force years in a robust economy.

Despite the gains in the economic status of boomer women, they will receive relatively less from the retirement income system than their predecessors. That is, replacement rates—retirement benefits as a percentage of earnings before retirement—will be lower in the future than they are today.

Women Boomers and Social Security

One reason that replacement rates will decline is that Social Security will be less generous in the future than it has been to date. Social Security benefits—relative to earnings before retirement—are scheduled to decline even under current law, and further cuts are likely given the program's financial shortfall.

The most obvious Social Security development that will affect boomer women (and men) is the change in the so-called normal retirement age. Current retirees are able to claim full benefits at age 65; early boomers will face a normal retirement age of 66 and late boomers an age of 67. But most people do not wait until the normal retirement age and instead claim benefits at age 62. For current retirees, early benefits mean a 20 percent reduction in overall benefits. But for the first wave of the baby boom, those who claim benefits at 62 will have their benefits reduced by 25 percent and those in the second wave by 30 percent.

Other factors will also reduce the value of Social Security. Medicare premiums are deducted from Social Security before the check goes in the mail. Projections show that the Medicare Part B premium will claim an increasing share of the average Social Security benefit.

Moreover, benefits will be taxed more under the personal income tax. Under current law, individuals with more than \$25,000 income and married couples with more than \$32,000 of "combined income" must pay taxes on a portion of their benefits. Since the exemption amounts are not indexed for inflation—much less wage growth—more and more Social Security beneficiaries will find their benefit subject to the personal income tax.

Finally, as Congress attempts to close Social Security's 75-year financing shortfall, legislators are likely to include some benefit cuts as part of the package. In short, net replacement rates for both men and women workers will be much lower in the future than they are today (see Table 1).

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Table 1: Social Security Replacement Rates for an Average Earner Retiring at Age 65, 2004 and 2030

<i>Provision</i>	<i>Replacement Rate</i>
2004	
Reported Replacement Rate	41.9
After Medicare Part B deduction	38.7
2030	
Replacement Rate after extension of Normal Retirement Age	36.3
After Medicare Part B deduction	32.1
After personal income taxation	29.4

Source: Alicia H. Munnell. 2003. "The Declining Role of Social Security." Issue in Brief. Center for Retirement Research at Boston College and author's updates.

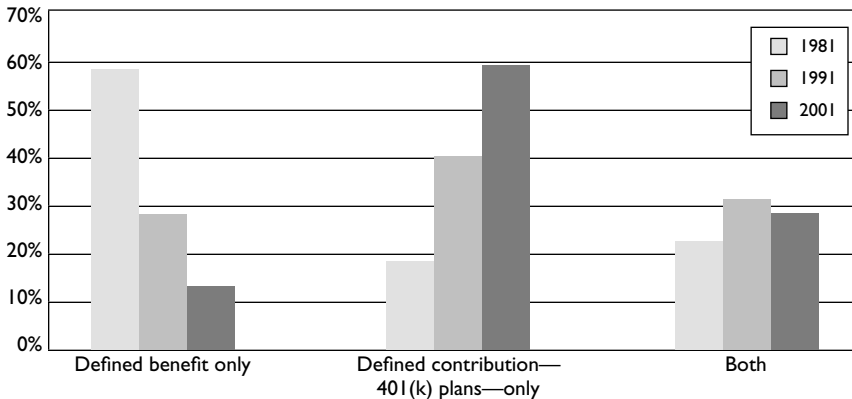
In addition to the above phenomena, the changing role of women will lower Social Security replacement rates for two-earner couples. Social Security pays the spouse—generally the wife—an amount equal to 50 percent of the husband's benefit unless her own benefit is greater. As women go to work, households' earnings increase, but their future Social Security benefits often do not. For example, in the case of median workers, the working wife does not add to the couple's benefit until her earnings exceed 36 percent of her husband's. Since more than 40 percent of working wives earn less than this threshold amount, working wives tend to reduce Social Security replacement rates. Among baby boomers, median replacement rates for one-earner couples will exceed 55 percent; while those for two-earner couples will average less than 40 percent.

Women Boomers and Pensions

In addition to the declining role of Social Security, women boomers will retire under a very different private pension system than their predecessors. Over the past two decades, coverage under employer-sponsored pension plans has shifted from traditional defined benefit to 401(k)-type defined contribution arrangements (see Figure 1). Under the defined benefit plan, the employee receives a pension based on years of service and earnings just before retirement. The benefit is usually paid as an annuity over the

employee's remaining lifetime. The employer invests the assets and bears the risk. In contrast, 401(k) plans are savings accounts. The employee directs the investment and bears the risk. Upon retirement, the worker generally receives the balance in the account as a lump sum. For women, the shift from defined benefit to 401(k) plans is a "good news/ bad news" story.

Figure 1: Percent of Wage and Salary Workers with Pension Coverage, by Type of Plan, 1981–2001



Source: Munnell and Sundén. 2004. *Coming Up Short: The Challenge of 401(k) Plans*. Brookings Institution Press.

When women are employed and accruing retirement income benefits, the news is good. Basically, workers with 401(k) plans can take their full accumulations with them when they leave, while workers with traditional defined benefit plans suffer a loss when they shift jobs. That is, 401(k) plans are better for short-tenured workers, and women are more likely than men to have short tenures; therefore, more women are likely to end up with more benefits under a 401(k) system.

The bad news arrives when women retire. As women tend to live longer than men, their 401(k) balances must provide an income stream over a longer stretch of time. Should they wish to annuitize a portion of their 401(k) accumulations at retirement, they will find that insurance companies compensate for women's longer life expectancy by providing smaller benefits to women, and larger benefits to men. (By contrast, in defined benefit plans, men and women with comparable work histories receive the same monthly benefit.) Any impediment to the ability of women to annuitize—that is, to

transform their accumulations into a guaranteed flow of income—at least some of the household’s pension wealth puts them at risk of running out of money in their 80s and 90s.

Women who rely on their husband’s earnings and pension benefits are also affected negatively by the shift from defined benefit plans to 401(k)s. Under traditional defined benefit plans, the government requires that the worker receive a joint-and-survivor annuity at retirement, unless the spouse specifically waives the requirement. This provision gives the wife a legal claim

on her husband’s pension benefit. No such automatic claim exists with 401(k) plans. The lack of a legal claim to her husband’s plan inevitably weakens the woman’s role in controlling the dispensation of the couple’s 401(k) accumulations. In this regard, the shift in pension coverage to 401(k) plans has made retirement less secure for married women.

At this point, it is unclear whether the good news or bad news will prevail and whether women boomers will end up better or worse off with respect to pensions.

Looking Ahead

Women boomers have made enormous strides economically and are more likely to receive Social Security and pension benefits on their own earnings. Yet the nation’s retirement income system will not provide the support it has in the past. Replacement rates for both single and married households will be lower for boomers than they are for today’s

retirees. How can this gap be bridged? For boomers, continued employment into their mid and late 60s is likely to play a much more important role than it does for today’s retirees. Given the enormous gains in health and life expectancy, working longer is a logical way for many women boomers to acquire much needed income. Working longer will also reduce the likelihood of women boomers, particularly single or divorced women boomers, falling into poverty in their 80s and 90s.

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