



# Harvard Generations Policy Journal

## THE AGE *EXPLOSION*: BABY BOOMERS AND BEYOND

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*The Age Explosion: Baby Boomers and Beyond* is a *pro bono* public service publication whose mission is to develop and implement creative, inter-generational national policies that will prepare the country for the aging of its baby boomers.

# Financial Hurdles Confronting Baby Boomer Women

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**T**hey grew up in a booming economy. They were offered unprecedented opportunities in schooling, sports, and, ultimately, jobs. Life presented great possibilities for these baby boomer women. And the Great Society took care of their older relatives. Now, several decades later, baby boomer women need to ask some hard questions about how *they* will live and survive financially in old age:

- Will social security still exist and, if so, what kind of benefit will it provide me?
- Will I have a supplementary private pension to fall back on?
- Will Medicare be adequate or will I need supplementary insurance?
- What kind of lifestyle do I want to develop as my formal market work is phased out?
- Should I continue to work on a part-time basis?
- Will I be able to maintain my lifestyle through stock market ups and downs?
- Do I need long-term care insurance?

There are many questions, but no easy answers.

Of course, these are questions that all baby boomers will be facing. But boomer women will face them more intensely because, although all boomers will live longer than any preceding generation, boomer women will live the longest. Since women, on average, live three to four years longer than men, 53

percent of those who were born between 1946 and 1950, and who will still be alive in 2015 at ages 65–69, will be women. Moreover, in 2035, 61 percent of the surviving members of this cohort, then aged 85–89, will be women. (Computed using data from [www.census.gov/population/projections/nation/summary](http://www.census.gov/population/projections/nation/summary).)

### **The Special Economic Problems of Older Women**

Older women encounter special financial problems because of their longer life span and because public policies toward the old are often constructed with men in mind. Primary issues are:

1. Women are likely to work less than men, and when they work, they often earn lower wages. Even though the labor force participation rate of women has been rising, it is still only 75–85 percent that of men and much of that work is part-time—particularly in the United States and in other industrial countries such as the United Kingdom, Canada, and Australia. The average hourly wage rate of women is also 15–30 percent below that of men in these countries (Ginn et al. 2001, 18–19, 132–133, 173, 192; US General Accounting Office 1997, 5–8). This means that women will have lower pensions than men after retirement.
2. Pensions often are not indexed to inflation, so they fall in purchasing power as the price level rises. The longer a retiree lives, the more time her pension has to fall. If a worker retires at age 65, by the time she reaches age 90, the price level will have doubled if it increases by 3 percent per year, and the purchasing power of a non-indexed pension will be cut in half. Social Security benefits, fortunately, are indexed to the Consumer Price Index (CPI) and so will retain their purchasing power. Most private pensions are not indexed.
3. Even if a pension is indexed to prices, it almost never is indexed to wages. Because of increasing productivity, wages usually rise faster than prices. If real wages rise 2 percent per year, by the time the retiree reaches 90, the ratio between her Social Security benefit and the average wage in the economy will be cut by one-third. She will be poor, in relative terms. This applies to both men and women, but at age 90, there are generally twice as many women as men. (Computed using data from [www.census.gov/population/projections/nation/summary](http://www.census.gov/population/projections/nation/summary).)

4. Many private retirement plans now provide lump sums upon retirement rather than lifetime pensions. This may seem attractive at first, but it could become a problem later on for women, who may outlive their retirement savings and have little guaranteed income to fall back on.
  
5. Older women are much more likely to become widows than men are to become widowers and are more likely to live alone than are older men. Women live three to four years longer than men, often marry husbands who are older than they, and consequently live five to eight years longer than their husbands. In the US, 34 percent of women aged 65–69 are widows, compared with 7 percent of men, and these proportions rise to 72 percent and 27 percent, respectively, by age 80–84. In the 85+ age group, 48 percent of men but only 9 percent of women are living with their spouse (Posner 1995, pp. 139, 277). Given household economies of scale, we know that it costs one person about 70 percent as much to live as two. Yet household income is likely to be cut by more than half when the higher-earning spouse, the husband, dies. Thus, survivor’s benefits are particularly important to women. Also, due to the usual link between secondary health insurance and a husband’s employment, older women may lack coverage. If older widows face problems, divorced women and single female heads of household face even greater problems. The net result: older women will face serious erosion in their standard of living. Very old women will effectively constitute a pocket of poverty in our society.
  
6. Because of their greater longevity, women are more likely to be afflicted with diseases that are highly correlated with aging, such as dementia and macular degeneration. These diseases frequently require custodial care, which is even more costly than hi-tech care and often is not covered by insurance. In traditional societies, older women lived with their grown

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children in extended families—for example 53 percent of women over age 60 in Chile do so—but this is no longer customary in the US (James, Edwards and Wong, 2003b). Besides, baby boomer mothers are having only two children, on average, compared with three or four in previous generations, and many are having only one or none. Long-term care for health reasons, along with more generalized economic support, will be a pressing need for older female baby boomers—but a scarce commodity.

*Baby boomer women can take action to prepare themselves for an extended old age. Social Security alone will not do the job.*

What can women do as individuals to plan for these challenges, and how can public policies, especially Social Security, be designed in a way that is sensitive to the needs and circumstances of women?

### **Planning for a Long and Secure Old Age**

Baby boomer women can take action to prepare themselves for an extended old age. Social Security alone will not do the job (and remember that Social Security and Medicare benefits may fall if the system isn't put on a firmer financial footing soon). Women can work more when young and save some of their earnings. With the help of financial planning tools, they can project how much savings they will need to maintain their desired life style after retirement. Most women (like most men) will probably find they are not saving enough.

In addition, women can work until a later retirement age. When a woman is likely to live past age 85, retirement at age 65 (the customary age when the expected lifetime was 70) does not make sense. If a woman retires about age 60 and lives until 90, this means she is going to be in retirement almost as long as she worked, so she will need to put aside a lot of earnings—or someone else will—for support in her old age. However, if she works until age 70, her retirement period will be about half her working life, which will allow her a comfortable standard of living when old without placing a huge tax burden on herself or others when young. Besides, an added benefit to working longer may also be that women maintain their mental acuity and, therefore, stave off some of the downside of aging. This work includes, of

course, part-time work combined with part-time retirement. Such opportunities are expected to increase as the population ages.

Women can also take steps to become more familiar with the financial markets so they are better prepared to invest their voluntary savings or their individual accounts effectively. In general, a higher return requires that higher risk be accepted. Studies have shown that women are often more risk-averse than men and therefore receive lower returns on their savings. While this is undoubtedly due in part to women's lower incomes, it is also likely related to their lesser experience in investing savings. (For a summary of the evidence on this point, see US General Accounting Office 1997, 9). Investment is not just men's business; women should take an active interest because they are the ones who will most need the money later on in life.

### **Social Security Reform and Women**

Beyond the individual measures boomer women can take, reshaped public policy—most importantly Social Security—can contribute to their more secure financial futures. The President and some members of Congress have recently proposed that Social Security be reformed in a way that would allow each worker to put part of his or her payroll tax into an individual retirement savings account. About 25 countries—in Eastern and Central Europe, Latin American, and the Asian-Pacific region—have adopted such a reform in recent years (James and Brooks 2001). Precisely how this would be designed is crucial to the welfare of women. Critics of these accounts argue that women would be disadvantaged because this new system would link benefits more closely to contributions, and women tend to contribute less because they earn less. Supporters respond that women would gain from a system with individual accounts because it would give them savings of their own, would remove distortions in the current system that hurt women, and would allow

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a more careful targeting of public benefits to groups that require subsidy to stay above the poverty line.

A recent study in three Latin American countries (James et al. 2003 a and b) simulated the impact of Social Security reforms on men and women who established individual accounts. The study found that women gained more than men. Moreover, it pinpointed the features that led to this result. With that study in mind, here are some of the recommendations that would make our US system more supportive of women:

1. An individual account system should require very gradual withdrawals at the end, or annuities that will last the entire lifetime. Annuitization, which provides a guaranteed income for life, is especially important for women in view of their greater longevity.
2. Annuities that provide inflation insurance should be developed. In Chile, all annuities are price-indexed. This is facilitated by the existence of many indexed financial instruments in Chile. The US government recently took a step in this direction by issuing indexed bonds.
3. A husband should be required to protect his surviving wife by purchasing a joint annuity (or other joint pension) that covers both spouses after retirement. This requirement exists in Chile, Argentina, and Mexico. The Latin American study found that this was the single most important factor in improving the position of women.
4. Women who have built their own pension should not have to give it up to receive the joint annuity. Today, women in the US can keep either the survivor's benefit or their own benefit from Social Security, but not both. Many then receive no return, absolutely nothing for all their years of contributions!
5. Savings put into the accounts during a marriage should be considered community property, to be divided equally between husband and wife in case of divorce. Currently, a marriage must last at least ten years for the wife to earn any credits under Social Security in the US. Individual accounts in the new system should begin sharing rights immediately so, if the marriage lasts only a few years, the wife does not lose everything. Alternatively, contributions made by two spouses might be evenly shared



between them while they are still married and working by splitting all contributions to their accounts equally.

6. These protections should extend to partners cohabiting without formal marriage. In many European countries today, people no longer bother to get married, but they do formally register as partners to obtain partners' rights.
7. The individual account must be accompanied by a strong social safety net that keeps old people out of poverty. This is important to both genders, but it is especially important to women, particularly women who are widowed, divorced, single, or very old. For example, Chile provides a minimum pension guarantee that sets a floor on the pension so, even if the account fails, pensioners are not poor. Argentina pays a flat (uniform) benefit to all eligible workers. Mexico puts a small payment per day worked into the account of every worker. As a result of these features, these new systems have improved the position of women in Latin America. (James et al. 2003 a and b).

## Conclusion

A Social Security system with individual accounts that include the features previously described could be very helpful to older baby boomer women—providing that system is implemented correctly. When this issue re-emerges on the policy agenda, women should make sure that it gets done right—by the Congress and the President. At the same time, boomer women need to think proactively and realistically about what their own financial needs and resources will be as they age. They should be taking steps *now* to get themselves where they want to be *then* so that they survive and thrive in their most senior years.

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