

**STATEMENT OF:  
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**ON BEHALF OF:**

**WOMEN'S INSTITUTE FOR A SECURE RETIREMENT (WISER®)**

**BEFORE THE**

**U. S. DEPARTMENT OF LABOR**

**2010 ERISA ADVISORY COUNCIL**

*Disparities for Women and Minorities in Retirement and Health Care*

**June 30, 2010**

## Executive Summary

### Introduction

The impact of the disparities in retirement among moderate and low income women and minorities have not been sufficiently understood or addressed by public policymakers. While the challenges have been discussed over the last few decades, the last economic crisis and the baby boomers' advancement toward retirement has again placed these issues on the front burner.

For women, factors such as earnings, marital status, caregiving and the interruption of work history, or working part-time to accommodate family responsibilities, affect their future retirement income. For many African Americans and Latinos, lack of educational opportunities, and working in low-paying occupations adversely affect their access to retirement plans as well as their ability to save and build assets.

Actually, women should be saving more money than men because they live longer and will need more money to support those extra years. They are also likely to have more incidences of chronic illness and will need additional funds to pay for higher expenses for health care and prescription drugs. At the same time, women are not saving anywhere near the amounts that are needed for a longer retirement. And while certain aspects of defined contribution plans help women, such as shorter vesting for women who generally have shorter job tenure, there is still a critical need for guaranteed lifetime income that protects women against running out of income. However, guaranteed lifetime income is not available or chosen as an option by most defined contribution plan participants.

Social Security benefits are a reliable source of guaranteed income over a lifetime, but Social Security is limited as a source of retirement income and was only meant to provide a minimum foundation. Today, however, for many women and minorities, Social Security benefits are their primary or only source of retirement income.

Because of one or a combination of the factors mentioned above, millions of women and a large percentage of African Americans and Latinos are vulnerable to outliving their assets and facing the real possibility of poverty in old age.

WISER's experience, providing retirement education for nearly fifteen years, indicates that when individuals are given clear relevant communication showing how to take control of their own employer retirement plan or how to start planning for retirement — they will do so. We find this true of individuals no matter what their financial circumstances.

We are hopeful that public policymakers will adopt changes to prevent poverty among women and minorities in old age, such as improving access to retirement plans, simplifying and expanding the saver's credit, instituting caregiver credits, improving opportunities to save, providing better opportunities to maximize their retirement income, and improving financial capability by helping to educate all Americans to make the best decisions possible. However, government and employers need to provide the impetus to help individual women and minorities educate themselves and avoid financial mistakes as much as possible by learning the fundamental rules of the systems that they rely on. It is up to all of us to help make that happen.

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### **Statement**

Good morning, I am Cindy Hounsell, President of the Women's Institute for a Secure Retirement (WISER), a non-profit organization whose primary mission is to focus exclusively on the unique financial challenges that women face and to provide the crucial skills and information women need to improve their long-term economic circumstances and financial quality of life. WISER supports women's opportunities to secure adequate retirement income through its research, training workshops, education materials and outreach.

WISER's major objectives are to: 1) Educate women age 18-70 to improve their financial decision-making; 2) Provide clear up-to-date information that moderate and lower-income women can use to mitigate the risks they face with respect to retirement income security; and 3) Raise awareness among policymakers and the public on these issues.

WISER also operates the National Education and Resource Center on Women and Retirement Planning under a cooperative agreement with the Administration on Aging, (The Center). The Center is a one-stop gateway of information created with strategic public-private coalitions to provide hard to reach women with financial tools. The Center's goal is to help women make the best decisions they can with their limited income. The Center has directly reached tens of thousands of women through our workshops, our partners' workshops and millions with our publications and website. WISER's approach is to bring financial planning back to the basics and our strength is to provide women and minorities with core financial knowledge that encourages them to make financial and retirement planning a priority in their lives. The initiative began in 1998 and now includes many partners—employers, aging, and women's organizations as well as community organizations.

We support the ERISA Advisory Council's efforts to find ways to meet the financial capability needs of all plan participants, but particularly those of women and minorities and to examine these needs in a holistic manner. We have attached WISER's, ***Women's Blueprint for Securing Retirement Income***, an outline that was developed with input from opinion leaders representing more than 40 organizations. My remarks will focus specifically on the retirement income disparities women and minorities face in

our country and we will not address the health care disparities. Questions 4-6 regarding the future guidance for the Form 5500's is also best answered by other witnesses.

### **Question 1: What is the nature of the retirement income gap?**

While most Americans are unprepared financially for their retirement, the gap for women and minorities is alarming. The retirement gap for women is based on these fundamental issues: women work fewer years, earn less, work part-time, lack pension and retirement savings opportunities because of where they work and they must plan for a longer retirement with the need for more income. Put simply, it's that women face a host of obstacles that jeopardize their economic security and millions of women are unaware of their future risks.

For reasons outlined below, women's retirement income is about 57 percent of men's retirement income. The disparity is even greater for African American and Hispanic women. This means many women barely get by financially during their retirement years.

The Administration on Aging pegs older men's median income at \$25,500 annually. This compares to older women's median income of \$14,600. [1] If the older woman happens to be African American, her median annual income is only \$12,500.[2] If she's Hispanic? Her median income is just \$9,550.

About one out of every five single white women over age 65 lives in poverty. Two out of every five single African American and Hispanic women over age 65 live in poverty.[3]

A recent study by the Center for Retirement Research at Boston College indicates that, African American and Hispanics generally, are less likely to have the earnings, job tenure, and other factors that lead to eligibility for plan participation and if they do participate they are less likely to contribute at the levels that are needed.[4]

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[1] *A Profile of Older Americans 2009*. Administration on Aging.  
[http://www.aoa.gov/AoARoot/Aging\\_Statistics/Profile/2009/index.aspx](http://www.aoa.gov/AoARoot/Aging_Statistics/Profile/2009/index.aspx)

[2] *A Statistical Profile of Black Older Americans Aged 65+*. Administration on Aging. January 2010. [http://www.aoa.gov/AoARoot/Aging\\_Statistics/minority\\_aging/Facts-on-Black-Elderly-plain\\_format.aspx](http://www.aoa.gov/AoARoot/Aging_Statistics/minority_aging/Facts-on-Black-Elderly-plain_format.aspx)

[3] Social Security Administration 2006.

[4] *401 K Plans and Race*. Center for Retirement Research at Boston College. November 2009 Number 9-24.

## **Question 2: What problems do you see and what factors do you think created the gaps in retirement readiness?**

Women have less retirement income because they have fewer resources during their working years that allow them to save and invest or earn pension income. Plus, a woman on average lives three years longer than a man, increasing the length of time her money must last. [5]

Here are some of the specific economic challenges women face when it comes to preparing for a financially secure retirement:

- Women who work full time earn about 78 cents for every dollar men earn.[6] Broken down by race, African American women earn 64 cents, and Hispanic women, 52 cents.
- Women have fewer years in the workforce and they are more likely to work in jobs that are part-time. The Bureau of Labor Statistics has predicted that women's labor force participation will not change significantly in the near future. [7]
- Women average 12 years out of the workforce to provide care to their families.[8] They lose pay increase opportunities, retirement saving opportunities, and those unemployed years are averaged into a woman's Social Security benefit as zeroes.
- Being a single woman over age 65 dramatically increases the chance of living in poverty. This is a very real threat to almost three in five women over age 65, who are widowed, divorced, or never married.[9]

We are all well aware of the worrisome lack of financial literacy/capability that exists in this country. Studies show that women know less than men do about personal

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[5] *Health, United States, 2008*, Table 26. National Center for Health Statistics.  
[www.cdc.gov/nchs/data/hus/hus08.pdf#026](http://www.cdc.gov/nchs/data/hus/hus08.pdf#026).

[6] *Annual Demographic Survey* (September 2009). U.S. Census Bureau and the Bureau of Labor Statistics. [www.census.gov/hhes/www/poverty/poverty08.html](http://www.census.gov/hhes/www/poverty/poverty08.html).

[7] U.S Department of Labor, BLS, *Women in the Labor Force: Databook, Report 996* (Washington D.C.: September 2006.)

[8] *Women and Caregiving: Facts and Figures*. Family Caregiver Alliance.  
[http://www.caregiver.org/caregiver/jsp/content\\_node.jsp?nodeid=892](http://www.caregiver.org/caregiver/jsp/content_node.jsp?nodeid=892)

[9] *A Profile of Older Americans 2009*. Administration on Aging.  
[http://www.aoa.gov/AoAroot/Aging\\_Statistics/Profile/2009/index.aspx](http://www.aoa.gov/AoAroot/Aging_Statistics/Profile/2009/index.aspx)

finance.[10] However, over the last decades, retirement decisions have become more complicated leaving many workers unprepared to take on the responsibilities needed to prepare for their retirement. WISER sees the confusion and uncertainty in all corners of the country where we conduct financial education workshops for women. We find that many women take no action, rather than take an uninformed one.

We often see the ‘deer in the headlights’ look at the beginning of our workshops. But by the end of our sessions, women walk away having learned something they can take action on. Why? Because we keep it simple and provide a foundation so that participants have something to build on. We don’t try to find out what they don’t know so that we can make them feel ignorant. It seems that every other week there is a new quiz that consumers are likely to fail or have already failed – not an effective way to make ordinary people want to take on this complicated area. What consumers do need, is to understand how the systems work and know that even the experts don’t have all the answers. There are basic rules that people need to know about their Social Security and their retirement plans. The more help they receive about their individual issues the more successful they will become at planning.

WISER tries to eliminate much of the financial planning jargon – and if we do use it, it’s just to reveal what the terms really mean. When we talk to people whose day jobs don’t involve personal finance, why should we expect them to understand statements like, “Dollar cost averaging reduces the impact of market volatility”? Instead, we use plain language to explain that regular investing improves your chances of surviving the impact of market ups and downs.

When a woman recognizes the potential risk she faces of living out her retirement in poverty, she has the opportunity to begin to weigh all her decisions based on potential long-term financial outcomes. WISER has worked with the Actuarial Foundation on a number of projects and I will mention one that is quite popular with women as well as with our minority partners. We have jointly published a booklet and developed a training session, *Seven Life-Defining Decisions*. This information helps women (and men) face the key financial decisions over a lifetime. For example, a woman’s decision about marriage, starting a family, choosing a career, taking a job, or deciding when to retire can have a big impact on her future financial security. Half the battle is knowing what the financial risks are, and what options exist to mitigate those risks.

Understanding personal finance well enough to make decisions and take action doesn’t happen in one fell swoop. For example, workers about to retire often get a meeting with HR to talk about retirement distributions. That’s too late to start thinking about whether to take money as a lump sum or a monthly payment, or to realize your money isn’t going to get you very far in retirement. The workplace is a workable,

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[10] *Financial Literacy and Ignorance*. AnnaMaria Lusardi.  
<http://annalusardi.blogspot.com/2009/05/women-and-finance.html>

successful venue for people to learn about retirement planning long *before* they have to make decisions.

**Question 3: What do you think the Department of Labor’s role should be in addressing the problems?**

From a policy perspective, many current proposals could have a positive impact on the ability of women to prepare for a financially secure retirement. For example, proposals to automatically enroll small business employees in an IRA when a 401(k) is not offered would increase coverage and participation. Reworking the existing Saver’s Credit to simplify it and expand it would provide greater incentive for lower-income earners to save for retirement.

The Department may have a role to play in expressing worker retirement benefits as monthly income on their statements. Most workers think of their retirement benefit as a single lump sum, because that’s what they see on their 401(k) statements. To also present the account value as an annuity would have a few positive effects. First, it would help move workers’ mindsets toward the notion of monthly income in retirement. It could also serve as a wakeup call. A worker might think \$50,000 is a pretty good account balance, until she sees it translates into about \$230 a month.

Another area the Department could focus on is providing appropriate protections against lawsuits for employers that want to provide financial education. This would increase the incidence of workplace education initiatives. For tens of millions of working Americans, their employer is a trusted source of information. EBRI’s most recent retirement confidence survey[11] indicated that participants place a higher confidence in private employers than other large institutions. Because the responsibility of retirement income decisions has shifted to individuals, we need to encourage more education by employers or forge partnerships with unbiased sources. Increased education in the workplace could have a dramatic impact on financial capability and action. But legal concerns tie the hands of many employers that would otherwise be eager to provide financial education. The Department and employers should work together to arrive at a solution that would protect employers who offer appropriate education, and protect workers against ill intent.

Community-based organizations represent another important trusted resource for working Americans. Church groups, civic leagues, professional organizations and others are highly useful avenues to reach people with basic financial education. WISER trains people from such organizations to run workshops across the country. We focus on simple, actionable information. It works, but the need for increasing funding is

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[11] EBRI Issue Brief, Number 340, March 2010.

imperative to replicate this approach across a broader population. We hear this request from many others who work on financial literacy.

Another policy area to consider is ways to improve work options for older Americans. Many older workers are finding the desire or the need to work beyond traditional retirement age.

And, while not under DOL purview, strengthening Social Security is an imperative. Four in 10 women living alone in retirement rely on Social Security as their sole source of income. Our experience with older women shows that many were never aware of the rules or fundamentals of either the Social Security or Medicare systems – systems that they must rely heavily on. This lack of knowledge may affect them detrimentally in ways they cannot recover from. This is also true of the rules regarding pensions and 401(k)s. Perhaps, the Department of Labor and Treasury can find ways to work with the Social Security Administration and CMS to assist all Americans to attain the basic knowledge they need to know for their critical decision-making. For instance, the many options that are available as to when to take Social Security benefits reinforces the need for women to become aware of the long-term risks and the impact on their future retirement income.

### **(1) Educational Opportunities to Address the Gap**

WISER's experiences and successful interventions indicate that financial capability comes from applicable education that provides the everyday answers for preparing for retirement. All women regardless of income or race need to understand the basics of saving and investing as well as the need to make a plan. They need to understand their longevity risk, and learn ways to mitigate it. They need to understand that decisions they make through the course of their lives will have an effect on their retirement income security.

### **(2) Plan Designs that Affect Outcomes for Women and Minorities**

The simple fact that most people who save for retirement do so through their employer is testament to the important role employers play in retirement savings. Obviously, any action the Department can take to encourage employers to continue sponsoring plans and to provide education about their plan is vital. It is a no brainer that if a worker is given a picture of their own specific plan, showing them exactly how to increase their contribution and how it is unlikely to affect their bottom line take home pay --that worker will likely make a change.

One plan design option that would help both lower and moderate income workers would be to incorporate the Saver's Tax Credit into the plan so that workers would effectively understand the benefit of the incentive. This option presumes that the Saver's Credit will be improved and simplified.

Another option might assist part-time workers. For over 25 years, proposals have been floating to reduce the number of hours required for part-time workers to become eligible for benefits – from 1,000 hours to 500 hours. If the Auto IRA proposal passes, it could be made available to those part-time employees who are not eligible for workplace benefits.

### **How to Improve Coverage and Participation for Women and Minorities**

As I mentioned earlier in my statement, coverage and participation for women and minorities will increase by expanding retirement saving opportunities where they don't currently exist through the auto IRA, simplifying and making refundable the Saver's Tax Credit, educating part-time workers and helping them access savings, and making it easier for employers to provide financial education in the workplace.

### **(3) Other Studies or Actions WISER Recommends**

We know the problems. We've studied them to death. We know building financial literacy yields improved financial security outcomes. We know people need many bites of the apple to understand personal financial matters; that a one-time or one-size-fits-all approach doesn't work. We know the language of personal finance is intimidating and often impenetrable, and, to borrow a phrase, we need to "keep it simple stupid."

We don't need to fund more studies. We need to fund efforts that spread financial literacy, to help women and minorities (and everyone else) take action to secure their retirement income prospects. The time for studies is behind us. The time for action is now. Thank you.

## Appendix 1:

# Blueprint: Securing Women's Retirement Future

Updated December 3, 2009

This **WISER Blueprint for Securing Women's Retirement Future** represents the thoughts and ideas of opinion leaders from more than 40 women's organizations, representatives of the insurance industry, financial experts, actuaries and a broad range of people interested in the future of women's retirement. While it is not a finished product as such, it is an outline—a "blueprint" for thinking about this very important issue. It is a package of ideas offered to researchers, policymakers and advocates for further discussion, thought, and finally action about making women's retirement more secure in the future.

**Introduction:** As we think about financial security in retirement, we need to focus on:

- Social Security
- Tax code and other legislative provisions that spur coverage and benefits
- Employer-sponsored retirement programs (including defined benefit and defined contribution)
- Individual saving
- Health care
- Long-term care
- Financial products that help individuals and employers implement plans and programs
- What one person can do

These things need to work together. This blueprint provides some key facts and policy recommendations to help improve security in retirement for women.

**Key Fact: For more than 40% of older women living alone, Social Security is virtually all that they have. This group is four to five times as likely to be poor as are married couples.**

### *Protect, Preserve and Strengthen Social Security*

- Preserve Social Security as an income-based social insurance system.

- Improve benefits for low-wage workers—those with very low benefits are primarily low-wage unmarried and widowed women.
- Modernize divorce benefits – update the average length of a marriage from 10 years to 8.
- Study ways to offer retirement protection to women with significant time spent as caregivers, including the provision of Social Security credits.

*Increase Security for Women Living Alone in Retirement*

- Study ways to improve pension division upon divorce.

*Protect Low- and Moderate-Income Women*

- Expand and simplify the Saver’s Tax Credit to provide a more meaningful 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.
- Improve Medicare’s prescription drug benefit and maintain adequate Medicaid benefits for dually eligible seniors. **Comment: The closing of the Medicare donut hole by 2020 should help with these costs.**

**Key Fact: The benefits of changes in tax policy over the last several decades have shortchanged low- and middle-income wage jobs, where women predominate. The after-tax income in the last three decades has increased by only 15% for those in the middle, and grown by only 5 % for the lowest fifth of the population. This has been a major impediment to women’s efforts to acquire assets.**

*Support tax initiatives that provide incentives for low- and moderate- income workers to build wealth*

- Support and continue to expand programs that help working families and women, such as the Earned Income Tax Credit, Saver’s Tax Credit, education spending, tuition assistance, tax deductions for childcare and medical expenses, and the Children’s Health Insurance Program.
- Make sure that changes in income tax policy are progressive and promote growth of assets in moderate-income households.

- Support and expand financial education programs provided by government, employers, and financial institutions.

**Key Fact: While Americans are living longer each year (about one year longer per decade), there has been a shift away from benefit plans that promote a guaranteed lifetime income. Americans regularly underestimate longevity and many do not understand how to create lifetime income. Opportunities for longer work are often limited.**

*Enable Later Retirement and Support Better Work Options*

- Provide more support for phased retirement, including pension protection, age discrimination act safe harbors, and clarification of the basis for rehiring retirees.
- Remove disincentives in private benefit programs that reduce the payoff for retiring later.
- Study the interaction of increasing longevity and retirement ages, and develop a dynamic system to keep retirement ages in step with greater longevity.
- Promote incentives for older workers to continue working and improve employment training and retraining programs to better serve older workers.
- Find ways to keep Social Security in balance as a system that pays lifetime income, while fully protecting Social Security's disability benefits and studying the impact of adjusting retirement ages on various populations including the fact that the economic crisis is keeping many workers whose retirement planning included continuing as part of the paid workforce.

*Encourage Annuitization*

- Revisit the minimum distribution rules and their interaction with desirable asset management strategies, including the possibility of the equivalent of dollar-cost-averaging in annuity purchases.
- Support and encourage the continued availability of retirement plans and products with risk-protection features, such as lifetime income.
- Encourage annuities as an investment and distribution option in defined contribution plans and IRAs to address the need for basic spousal protections.
- Enable employers to offer life income as the default method of payment in defined contribution plans that offer a choice of payout method. Enable employers to include an option that provides for conversion of part of the balance to an annuity over a period of time.

- Align state laws on risk protection products with federal law on employee benefits to enable more employer use of risk protection features in benefit programs.

Encourage Financial Product Innovation

- Support development of new products including combining income and long-term care.
- Encourage the development of new annuity products based on the unique needs of baby boomer women.
- Support development of longevity insurance.
- Make sure federal and state tax laws do not create barriers and disincentives for employers and individuals that discourage purchase of financial products that enhance retirement security. Focus on how low- and middle-income workers are impacted by these incentives.
- Support study and demonstration projects for innovative proposals to expand affordable health care coverage including new risk pools, expansions of Medicare and Medicaid, COBRA and tax credits. **Comment: This will likely move forward with the introduction of Health Care Reform.**

**Key Fact: Individuals with employer-sponsored benefit plans have a much better chance of achieving a good retirement income than those who do not have such plans. People are much more likely to save when they have access to employer-sponsored plans than when they have to do it on their own. Traditional pensions have been declining and are largely being replaced by defined contribution plans that require personal savings to produce at least part of the benefit.**

Support Employer Plans, Make Adjustments to Recognize the Difference in Men's and Women's Employment Experience and Support Individual Savings

- Enact pay equity legislation to enable women to save more and earn more adequate benefits.
- Encourage employers to offer a retirement program, either defined benefit or defined contribution, and make it easy for employers to do so.
- Lower vesting requirements to four years to align with women's average job tenure.
- Extend pension and retirement savings plan coverage to part-time and temporary workers.

- Enact legislation to provide payroll deduction IRA savings opportunities to the millions of workers who have no access to retirement savings plans.
- Support and encourage the continued sponsorship of defined benefit pension plans or a more portable plan with similar risk-protection features.
- Support and encourage new risk-sharing options.

**Key Fact: Retirement security today, with or without an employer program, often depends on individuals participating by saving their own money, and on individual choices about how to manage retirement. At the same time, there are major gaps in what people know and in how they act on what they know. Many people simply follow default options in the programs they are eligible for, whether that means joining or staying out.**

*Support Both Effective Education and Good Default Options*

- Congress should continue to encourage employers to offer meaningful and appropriate financial education programs and assistance.
- Government and foundations should act together to support efforts of non-profit and grassroots organizations to offer financial education in local communities, particularly those programs that target at-risk populations.
- Bring financial education into the elementary schools.
- Congress should also enable the expansion of default options that make plans work reasonably well for those who elect not to make a choice.

**Key Fact: Women provide the majority of the caregiving in this country. During the time they are providing caregiving, they are often not saving for retirement, and time out of the workforce for hurts both their Social Security and their retirement plan protection.**

*Support Recognition of Caregiving as Valuable to Society*

- Encourage employers and public programs to support caregivers with programs such as referral services, support groups, and respite care.
- Study ways of offering better retirement protection for women with significant time spent as caregivers, including changes in Social Security benefit calculations.

**Key Fact: Health care is a vital part of retirement security. There are still major gaps in Medicare, particularly in the area of long-term care and prescription drug coverage. Fewer people have employer retiree health plans. Early retirees have a**

**great deal of difficulty obtaining affordable coverage if there is no employer plan. Most people are not prepared for the substantial costs of long-term care benefits.**

*Improve Access to Affordable Health Care\**

- Study ways to provide health care to early retirees with risk pooling, innovative purchasing arrangements, tax credits, buy-ins to government programs or other innovative proposals.
- Study ways to reduce health care costs, including prescription drug costs.
- Study ways to make long-term care more widely available and affordable.

**\*Comment: We are hopeful that the recently passed Health Care Bill will take care of these options.**