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Highlights

Highlights of GAO-08-105, a report to Ranking Member, Special Committee on Aging, U.S. Senate

RETIREMENT SECURITY

Women Face Challenges in Ensuring Financial Security in Retirement

Why GAO Did This Study

Women aged 65 and over will account for a growing segment of the U.S. population over the next several decades. Despite increases in women's workforce behavior in the past 65 years, elderly women have persistently high rates of poverty. Thus, it is important to understand the differences between men's and women's retirement income, and how women may fare given future reforms to Social Security and pensions. GAO was asked to examine (1) how women's retirement income compares with men's and the reasons for differences; (2) how certain life events such as divorce, widowhood, and workforce interruptions affect women's retirement income; and (3) the possible effect on women's retirement income of certain changes to Social Security and pensions that seek to mitigate the effects of differences in workforce participation patterns.

To address these objectives, GAO reviewed the relevant literature, interviewed academics and other retirement experts, and used a microsimulation model to project future retirement income. GAO provided a draft of this report to the departments of Labor and Treasury, the Internal Revenue Service, and the Social Security Administration. Cognizant agency officials provided technical comments which were incorporated as appropriate.

GAO is making no recommendations.

To view the full product, including the scope and methodology, click on GAO-08-105. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

In general, women have less retirement income than men, largely because of women's lower labor force attachment and lower earnings, on average. Fewer women than men have income from most major retirement sources, and women have less income from these sources. Women's median Social Security income is 70 percent of men's. Also, fewer women than men have pensions. Among the population age 65 and over who continue to work, women earn just over half of what men earn. Women also have somewhat smaller income than men from assets, such as interest and dividends. Accordingly, rates of poverty among those 65 and over are substantially higher for women than for men. Although their participation has increased substantially in the last century, women still spend fewer years in the labor force than men, and they more often work part-time. Also, women tend to earn less than men, despite increases in their wages over time relative to men. Although work patterns are key in earnings differences, in prior work, we found that even after accounting for behavioral differences such as education or labor force participation, women still earn less than men.

Certain life events—including changes in marital status, labor force interruptions, and long-term care needs—can significantly reduce the amount of pension income and Social Security benefits women receive—and leave women with fewer financial resources at retirement than men. Social Security divorced spousal benefits are available only if the marriage lasted at least 10 years. Furthermore, pension benefits are available to a divorced spouse only under certain circumstances. Women's role as primary family caregiver for children and elderly relatives can reduce their career earnings, on which retirement income is based. Because women tend to live longer than men, widowhood and costly long-term care assistance may further reduce their retirement resources.

GAO's simulations of some Social Security changes that would compensate for low earnings or time out of the workforce showed that those changes tend to increase benefits for beneficiaries overall, and particularly those in lower income quintiles. Alternatively, changes that focus on shifts in family structure, such as increases in two-earner couples and increased incidence of divorce, tend to increase the benefits of groups targeted by the change, but produce mixed results for others. Some pension changes that have been proposed in the past several years take into account the changing labor force and norms of employer-provided retirement plans; while these changes are gender-neutral, they may provide important new opportunities for women to increase their retirement income. For example, decreased vesting requirements may provide additional pension income to those with intermittent workforce participation who would not qualify for pension benefits under a longer vesting schedule.