The Retirement Security Project

Retirement Security for Women:

Progress To Date and Policies for Tomorrow

Nº 2008-1

The Retirement Security Project

RSP

Common sense reforms, real world results

www.retirementsecurityproject.org

Advisory Board

Bruce Bartlett
Washington Times Columnist

Michael Graetz
Justus S. Hotchkiss Professor of Law, Yale Law School

Daniel Halperin
Stanley S. Surrey Professor of Law, Harvard Law School

Nancy Killefer
Director, McKinsey & Co.

Robert Rubin
Director and Chairman of the Executive Committee, Citigroup Inc.

John Shoven
Charles R. Schwab Professor of Economics and Director, Stanford Institute for Economic Policy Research, Stanford University

C. Eugene Steuerle
Senior Fellow, The Urban Institute

The Retirement Security Project is supported by The Pew Charitable Trusts in partnership with Georgetown University's Public Policy Institute and the Brookings Institution.

RSP

Retirement Security for Women: Progress To Date and Policies for Tomorrow

Leslie E. Papke, Lina Walker, and Michael Dworsky[1]

Introduction

As the baby boomers approach retirement, hardly a day passes without reference to concerns — in media outlets, policy discussions, and research circles — about whether households are saving enough to finance adequate living standards in retirement.[2] Most of this discussion, however, focuses on the generation as a whole. In this paper, we explore financial prospects and problems for women and policies that could materially improve their financial security in retirement.

The last several decades have seen major shifts in the economic opportunities and challenges facing women. These shifts imply that women face a number of issues that are often not addressed sufficiently in retirement policy debates.

First, as has been frequently noted and justly celebrated, women's education, earnings, and employment have risen substantially over time. Nevertheless, because of the demands of child-birth, child-rearing, adult care, and other factors, women still tend to experience shorter and more interrupted careers than men do, and are more likely to work either part-time or in low-paying occupations. The resulting work patterns adversely affect women's ability to save for retirement and to accumulate pension rights.

Because of these differences in work and retirement patterns, the substantial changes over time in the structure of pensions — the shift from defined benefit to defined contribution plans — have differentially affected the ability of men and women to prepare for retirement. Defined contribution (DC) plans tend to have faster vesting schedules and they also place less emphasis on long job tenures than defined benefit (DB) plans — these attributes help women save given their employment patterns. The loss of life annuities through DB plans, however, hurts women more than men because women tend to live longer and benefit more from the protection that guaranteed lifetime income provides against outliving their resources.

Second, marriage patterns and living arrangements have been changing in ways that adversely affect women's economic outcomes. Marriage rates have been falling and, in recent years, most of that decline has been among women with lower educational attainment. Single motherhood has also increased dramatically over the same period. Marital status and economic status are closely linked for women. The decline in marriage rates, particularly among households with lower education attainment, and the rise in single motherhood increase the likelihood that these families will be ill-prepared for retirement.

Third, women are likely to experience longer retirement periods than men because they tend to live longer than men and to stop working at earlier ages in

The shift from defined benefit to defined contribution plans - have differentially affected the ability of men and women to prepare for retirement.

order to retire at the same time as their, typically, older husbands. Not only do elderly women have to fund a longer retirement period, they also face the prospect of transitioning to poverty when their husband dies. This is due, in part, to expenses incurred at their husband's death and, in part, to the loss of his income. As a result, women have a greater need for retirement saving and for forms of wealth that protect against outliving their assets.

In this paper, we describe the underlying reasons for the differences between men and women's retirement preparedness and the challenges for women from lower-income families (Section II). In Section III, we delineate a series of specific policies that could materially improve the economic status of women in retirement. These policies include:

- Allowing care-givers to contribute to an Individual Retirement Account (IRA) and providing Social Security credit for episodes of care-giving, so that people who interrupt market work to care for family members are not penalized in terms of retirement saving;

- Establishing automatic 401(k) plans and automatic IRAs, so that almost all workers would be enrolled in a plan where the default was set so that they would participate unless they actively chose to withdraw;

- Expanding, rationalizing, and making refundable the Saver's Credit, so that moderate- and low-income workers would face clear and rewarding incentives to accumulate retirement wealth;

- Reforming the asset tests that accompany federal means-tested benefit programs, so that single mothers are not penalized for accumulating retirement saving;

- Increasing awareness among tax filers and preparers that individual income tax refunds may be directly deposited by the IRS into multiple accounts, so that tax filers have an easy and simple way of saving some portion of their refund.

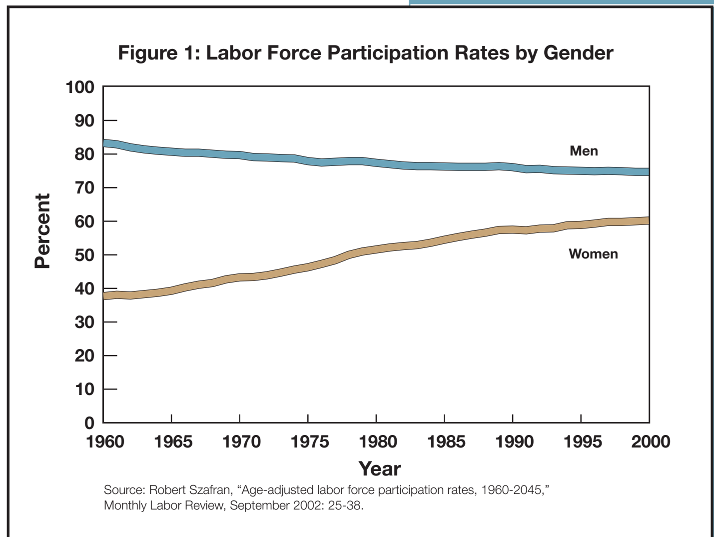
In Section IV, we highlight a number of other areas where more research and policies are needed, including increased ability to annuitize retirement resources, to access housing equity for retirement consumption purposes, and to pay for long-term care.

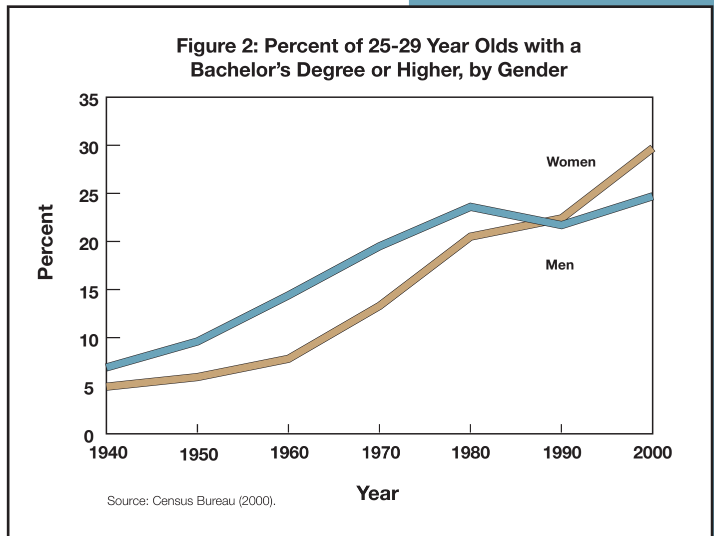
The Changing Economic Landscape for Women

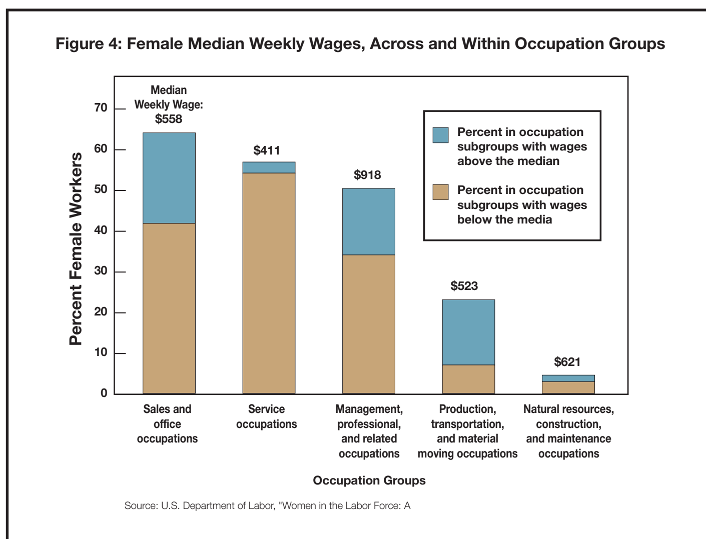
A. Employment and Wages

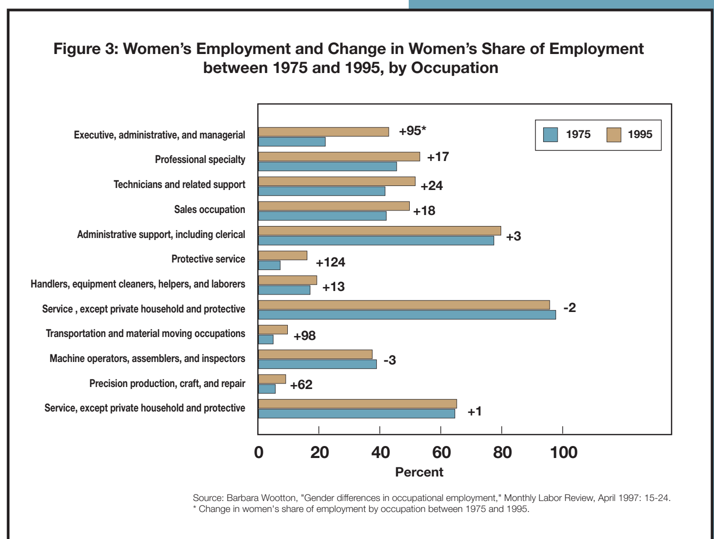
Women have experienced substantial gains in the labor market over the last several decades. The share of women in the labor force has grown from under 38 percent in 1960 to almost 60 percent in 2000 (See Figure 1). Women have also made concomitant gains in educational attainment levels and wage rates. Today, a higher proportion of women than men graduate from college (Figure 2) and women's earnings are approaching the level of men's. These gains made by women have been driven, in part, by institutional changes that created employment opportunities for women and, in part, by changes in social norms that transformed the perception of women's work from a “job” to “career” and galvanized women's participation in the labor force.[3]

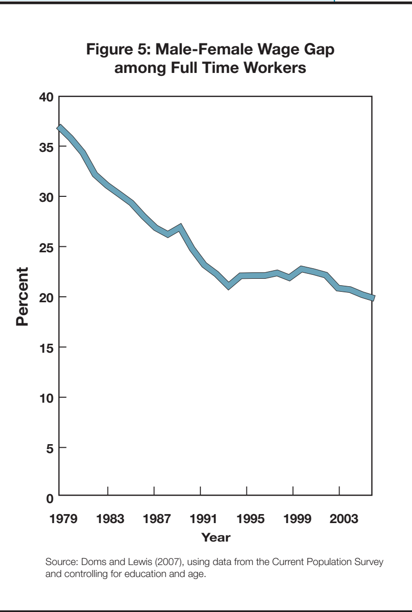
Despite the improvements in women's employment outcomes, gender differences in employment persist in several key aspects. First, women are more likely to choose jobs that are part-time, have shorter careers in the paid job market, and experience shorter job tenure at any given point in time than men.[4] Second, despite the fact that many women have entered highly-skilled and highly-paid occupations (Figure 3) the majority of women still work in occupations or industries with lower earnings.[5] Women continue to account for a higher proportion of workers in service and sales/office occupations, which tend to have lower earnings relative to other occupations. Even among professional workers, women are more likely to be employed in professions with lower relative earnings, such as education, training, and library occupations, rather than computer and mathematical occupations (Figure 4).











The median female worker near retirement held $34,000 in a 401(k) plan or IRA whereas her male counterpart held $70,000.

These gender differences in employment patterns partly explain women's lower earnings relative to men.[6] Women's wages remain 20 percent lower than men even among full-time workers with comparable education attainment and age. Between 1979 and 2005, the difference between men and women's hourly wages (gender wage gap) shrank by almost half. Most of the decline occurred during the 1980s (Figure 5). The shrinkng wage gap in the 1980s is largely attributable to women's increasing labor force attachment and market skills (from education and experience).[7]

B. Retirement Plans

These gender differences in employment and wages lead to lower overall retirement saving for women compared to men. The last 30 years has seen a shift in employer-provided retirement coverage from DB to DC plans. In a DC plan, which emphasizes accumulating assets, women are able to save less than men because they have shorter careers and lower wages. Comparing retirement accounts of women and men, women near retirement are 5 percentage points less likely than men to have a pension or a retirement plan (such as a 401(k) and IRA). Women also have lower retirement assets than their male counterparts: the median female worker near retirement held $34,000 in a 401(k) plan or IRA whereas her male counterpart held $70,000 (Table 1).[8]

Accounting for differences in employment patterns, removes much of the gender difference in men's and women's saving pattern. Not only do women have comparable participation and contribution rates to men, at each earnings level, female wage and salary workers are slightly more likely to participate in a pension or retirement plan than male workers and the difference is largest among workers in the middle- and lower-income ranges.[9] For instance, in 2005, 58.2 percent of female wage and salary workers participated in an employer plan compared to 55.4 percent of male wage and salary workers and among employed workers ages 18-62, women contributed 7.2 of their salary to a DC retirement plan while men contributed 7.5 percent.

Differences in retirement balance may also be due to differences between men and women in investment patterns. Participation in 401(k) plans requires management of investment accounts. If women are more likely to invest in less risky assets than men, they will experience lower returns on their 401(k) investments, which lead to lower 401(k) balances over time. Although some studies have found gender differences in risk-taking behavior, the evidence is mixed and inconclusive.[10]

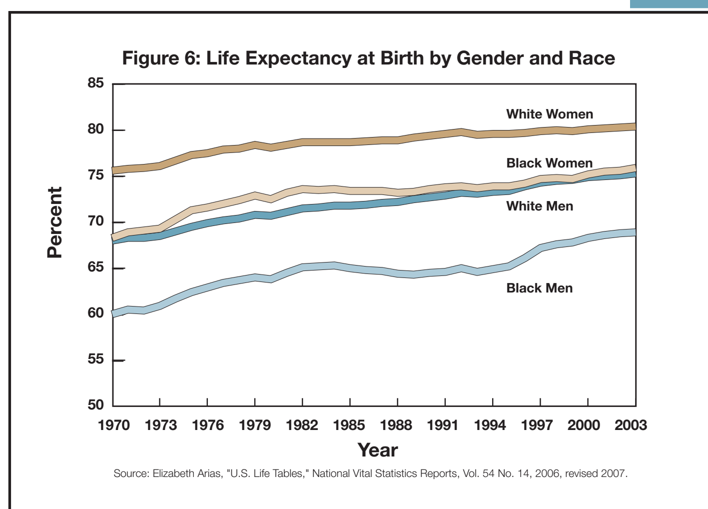
The shift away from DB plans to DC plans has affected more than just women's retirement balance sheets, and these other changes have both helped and hurt

Table 1: Retirement Accounts and Balances by Age Groups and Gender

		Percent with a Pension or Retirement Plan*				Retirement Account Balance (in thousands)		
							Workers with DC Plan or IRA	
	Age Group	DB Only	DC Plan and/or IRA Only	DB and DC/IRA Both	Total -- Either DB/DC/IRA	Mean Balance	Mean	Median
Women	25-34	7.6%	34.7%	4.1%	46.3%	$6.1	$15.7	$5.4
	35-44	10.5	47.8	4.2	62.5	19.8	38.1	18.0
	45-54	13.4	50.5	5.8	69.7	30.3	53.8	25.0
	55-64	10.1	57.8	5.2	73.2	57.8	91.7	34.0
Men	25-34	7.1	41.1	4.4	52.6	12.7	28.0	14.0
	35-44	7.8	48.3	7.3	63.4	37.1	66.7	30.0
	45-54	12.0	46.2	10.0	68.2	83.8	149.1	70.0
	55-64	8.9	58.1	10.8	77.7	151.2	219.5	70.0

Source: Authors' tabulation using the 2004 Survey of Consumer Finances.
* The groups with coverage through DB only, DC and/or IRA only, both DB and DC/IRA are mutually exclusive. The final row sums across these three groups.
Sample includes workers who currently work for pay

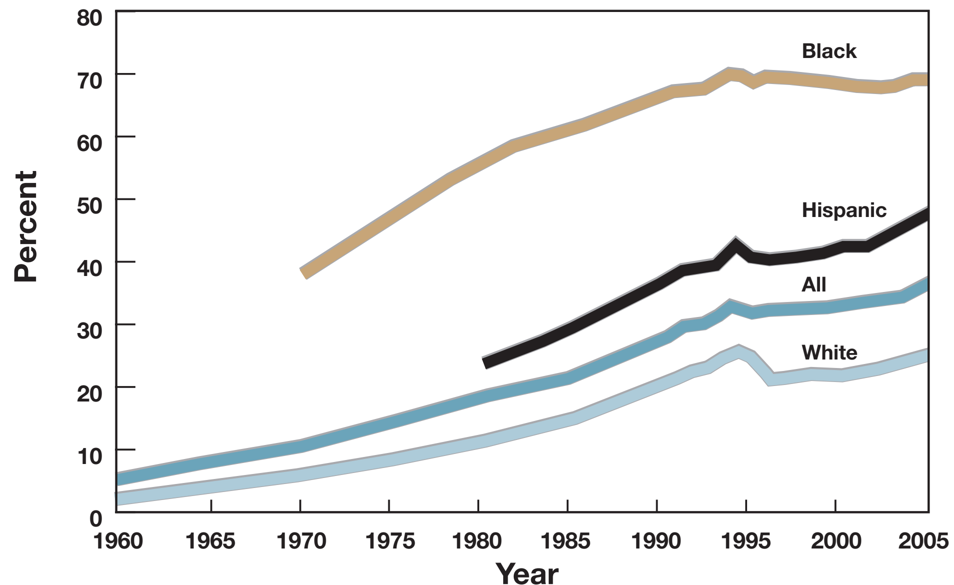
prospects for women in retirement. Compared to DB plans, 401(k) plans offer greater portability, faster vesting, and faster accrual of benefits, all of which are better suited to women's interrupted work history and shorter job tenure. Pension benefits in a DB plan typically increase with earnings and years of service with a firm. As a result, they penalize those with short job tenure, since benefits at a particular job accrue at rates that are proportional to job tenure and since benefits "start over" in a new job. In addition, DB benefits vest more slowly than 401(k) balances. In a 401(k) plan, employees' contributions are vested immediately and employers' contributions under DC plans tend to be vested earlier than under DB plans.[11]



The major disadvantage for women of the shift away from defined benefit plans and toward 401(k) plans is the loss of the automatic life annuity through an employer-based retirement plan. DB plans must offer (as a default) the option of benefits in the form of a life annuity, and often pay benefits in that form. In contrast, 401(k) plans generally provide a lump-sum distribution at retirement (in 2005, only 20 percent of employers with 401(k) plans offered an annuity payout option).[12] Because women tend to live longer than men, a life annuity, which insures against outliving one's resources, is more valuable to women than to men (Figure 6).[13] Although one could use the lump-sum distribution to purchase a private annuity, markets for individual annuities are poorly developed and feature high expenses, making such investments unattractive. Private annuity contracts are a particularly bad deal for women because they have longer life-spans than men and, consequently, face relatively higher prices for an annuity that pays a fixed amount per year for life.[14] This type of disparity does not exist under a DB system where men and women would receive similar benefits over their lifetime if they have similar employment histories.

An additional disadvantage of DC plans for women is that generally spousal consent is not required when the retired worker makes distribution choices at the distribution date.[15] Under traditional DB pension plans, benefits to married workers are automatically paid as a lifetime annuity with survivor benefits for the spouse unless the spouse consents to waive the survivor benefits. By contrast, under a DC plan, there is no default distribution option and a worker may choose to take distributions as a lump sum or in installments without the spouse's consent. Men and women, however, will likely have different preferences regarding the form of the distribution because of differences in the length of their retirement period. Requiring spousal consent when the worker makes distribution choices potentially could increase the proportion of workers taking distributions in the form of a life annuity with survivor protection. Evidence indicates that when the default option in DB plans for married couples was changed to a joint and 1/2 survivor annuity, unless the spouse consented to an alternative option, the selection of survivor annuities by married male pension plan participants increased from 48 to 64 percent.[16]

On the other hand, 401(k) plans have become increasingly electronic, which has the potential to reduce administrative costs. Spousal consent proposals, by calling for a spouse's signature that is notarized or witnessed by a plan representative, generally have been viewed as precluding electronic



Nearly 30 percent of unmarried African American and Latino women are living in poverty and they have between 10-25 percent the net worth of unmarried white women.

administration in this phase of 401(k) plan operations. Accordingly, plan sponsor representatives have expressed concerns that expanding 401(k) plan spousal consent requirements could increase administrative complexity and costs. This issue has been the subject of considerable discussion and controversy for years. It would be useful to continue this discussion and explore approaches that could balance the legitimate interests in protecting spouses, promoting lifetime guaranteed income and minimizing 401(k) costs and administrative requirements.

Marriage, Living Arrangements and Widowhood

Marriage patterns and living arrangements have changed considerable over the last half century. Fewer adults are married, more are choosing to divorce or remain single, or live in cohabiting households. Marriage rates have fallen from 77 per 1,000 unmarried women in 1970 to 41 in 2005.[17] In recent years, most of the decline in marriage rates has occurred among households with lower educational attainment.[18] The rise in single motherhood is also notable. The percent of all births to unmarried women has increased dramatically, rising from 5 percent in 1960 to 37 percent in 2005 (Figure 7).[19]

Marital patterns vary by race. Among white women, the percent currently married declined from 67 percent in 1960 to 54 percent in 2006. Among African American women, the decline in the proportion currently married was even more sharp - falling by nearly half from 60 percent to 34 percent. There are also large racial differences in the percentage of non-marital births. In 2005, 69 percent of births to African American women and 48 percent of births to Latino women were outside of marriage whereas only 25 percent of births to white non-Hispanic women were outside of marriage.[20]

The decline in marriage rates creates concerns for women's retirement security because of the close link between marital status and economic status for women. Unmarried women, on average, have fewer economic resources than married women. Near or nearly retired unmarried women are three times more likely to be poor and have lower household income and net

worth than similarly-aged married couples (Table 2).[21] Even compared to unmarried men in the same age group, unmarried women are financially worse off. Unmarried women from minority groups have even lower economic resources: nearly 30 percent of unmarried African American and Latino women are living in poverty and they have between 10-25 percent the net worth of unmarried white women (Table 3).

Single mothers are particularly vulnerable to living in poverty than other types of households with children. In 2006, 37 percent of female-headed households with children under the age of 18 had income below the poverty-line compared with 18 percent of male-headed households and 6 percent of married couples.[22]

The importance of marital patterns and living arrangements for economic welfare persists into the retirement years. Elderly widows are three times as likely to be poor as elderly married couples.[23] This is partly because widowed households are

Table 2: Economic Characteristics of Near or Newly Retired Individuals by Marital Status

	Married	Unmarried			
	All	All	Divorced	Never Married	Widowed
Women					
Population Share	60.6%	39.4%	17.5%	5.0%	16.9%
Poverty Rate	5.3	17.8	17.7	22.6	16.4
Median Income (in thousands)	$54.4	$19.3	$19.0	$19.3	$19.3
Median Net Worth (in thousands)	288.0	67.5	57.9	65.0	76.3
Men					
Population Share	78.3%	21.8%	12.7%	5.0%	4.0%
Poverty Rate	5.7	15.8	16.9	17.1	10.5
Median Income (in thousands)	$64.1	$28.8	$29.3	$24.5	$31.6
Median Net Worth (in thousands)	267.0	113.0	93.1	121.0	143.5

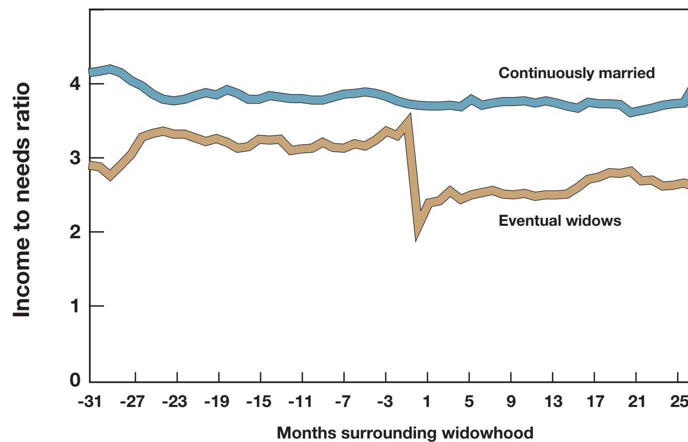
Sources: Authors' tabulation of population shares and poverty rates using the 2006 March CPS, ages 62-67, authors' tabulation of household income and net worth using the 2004 Health and Retirement Study, ages 60-67.

Table 3: Economic Characteristics of Near or Newly Retired Women by Race

	White		African American		Latino	
	Married	Unmarried	Married	Unmarried	Married	Unmarried
Population Share	64.1%	35.9%	36.5%	63.5%	53.8%	46.2%
Poverty Rate	3.9	14.2	13.3	29.1	10.1	30.5
Median Income (in thousands)	$57.6	$23.4	$40.5	$14.0	$31.2	$10.6
Median Net Worth (in thousands)	336.0	105.1	93.0	25.0	123.0	12.0
Distribution of Income Sources						
Social Security Income	27.3%	31.7%	31.6%	30.6%	39.5%	33.5%
Pension and other Retirement Income	19.1	13.0	15.8	14.4	12.3	11.7
Current Earnings	40.8	40.7	45.4	36.7	42.9	30.8
All Public Assistance	0.8	4.8	3.3	13.6	2.2	17.3
Asset and Other Income	12.1	9.7	3.9	4.7	3.1	6.7

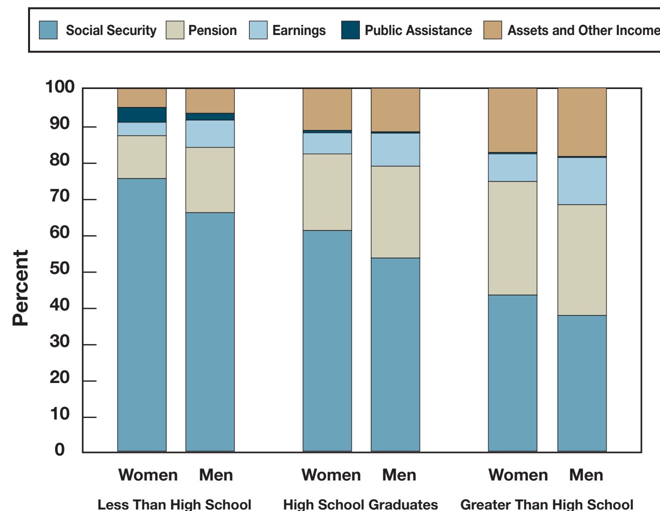
Sources: Authors' tabulation of population shares and poverty rates using the 2006 March CPS, ages 62-67, authors' tabulation of household income, net worth and income sources using the 2004 HRS, ages 60-67.

Figure 8: Income to Needs Ratio during Months Surrounding Widowhood



Source: Holden and Zick (1998).
The income to needs ratio is the ratio of total family income relative to the poverty line. For married couples, the time period shown is the entire period of the study rather than the months surrounding widowhood.

Figure 9: Income Sources for Men and Women Ages 70 and Over, by Education Attainment



Source: Author's tabulation using the 2004 HRS data

more likely to have incurred large out-of-pocket medical expenses from their husband's illness. Additionally, households in which a husband dies at a relatively young age may have lower resources even prior to widowhood than households in which both spouses survive.[24] One study found that forty-four percent of the difference in economic status between widow(er)s and married elderly persons was due to disparities in economic status that existed prior to widowhood.[25]

In addition to facing higher expenses, new widows also face a reduction in household income when the husband dies. Social Security and, potentially, pension benefits are reduced by one-third to one-half at the husband's death. The reduction in Social Security and pension benefits are meant to reflect the household's smaller size and needs. Evidence suggests, however, that the reduction in benefits is greater than the reduction in needs of the widowed household.[26] Relative to couples that stay intact, the income to needs ratio of widowed households falls by almost 33 percent at the time of the spouse's death (Figure 8).[27]

The loss of Social Security benefits at the husband's death likely has a larger effect on poverty transitions among lower-income households than higher-income households. Lower-income elderly households, represented by households with lower education attainment, rely mostly on Social Security income (Figure 9). The loss of the husband's Social Security benefits would represent a proportionately larger decline in total household income for lower-income households than higher-income households.

Specific Proposals to Improve Women's Retirement Prospects

For the reasons discussed above, many women will reach retirement age without having prepared adequately for their future. A number of options are available to policy makers to rectify these problems. Many of these options would also have the salutary effect of improving preparation for retirement among males as well.

An important component of a strategy to improve women's retirement preparedness would be to improve labor market opportunities

and outcomes for women. These options could include incentives that enable women to continue working while providing care, such as allowing more flexible work arrangements through job-sharing or telecommuting; or shifting care-giving responsibilities to a third party through direct or indirect subsidies for care-giving. After decades of improvement, however, women's advances in earnings and entry into traditionally male-dominated industries appear to have slowed substantially in the 1990s.[28] Furthermore, social norms and customs that affect women's employment choices (such as being the primary care-giver) may prove difficult to change.[29] In the absence of further policy changes, the current gap, or at least a significant gap, in male-female employment patterns will likely persist in the future.

Hence, while we do not wish to downplay the importance of continued labor market improvement for women, we focus our discussion below on ways to make it easier for women to prepare for retirement, even assuming a wage gap will continue to exist between men and women.

However, one labor market pattern is worth highlighting. As more women claim benefits based on their own work history, the employment choices women make and the age at which they claim benefits will have an increasingly larger impact on their retirement security. Social Security benefits are based on the worker's 35-year average earnings and the benefits are actuarially adjusted if the worker claims at ages other than the normal retirement age (NRA). Benefits are reduced if the worker claims early and increased if the worker claims later.[30]

Given the way benefits are computed, working longer and delaying Social Security claiming is more beneficial to women than for men for a couple of reasons. First, because women live longer than men and will receive Social Security payments for a longer period of time, the value of increased payments from delayed claiming will be higher for women than for men.[31] Second, working beyond age 62 could increase the worker's 35-year average earnings and increase the base over which her benefits are computed, which would lead to higher overall payments. Higher Social Security receipts could alleviate the probability of widowhood poverty for women since the additional resources (through current earnings or additional retirement saving) could help weather shocks arising from their husband's death, such as large out-of-pocket medical expenses.

Despite the benefits of delayed claiming for women, the most common claiming age for both men and women is 62 (Table 4). Unmarried women are more likely to work longer than either married women or

The employment choices women make and the age at which they claim benefits will have an increasingly larger impact on their retirement security.

Table 4: Age of Initial Claims of Social Security Benefits, 1992 - 2002

Age	Women		Men	
	Married	Single	Married	Single
62	67.1%	48.9%	58.1%	64.1%
63	14.5	14.7	11.9	10.4
64	6.6	9.2	9.6	7.1
65	9.8	20.6	15.8	11.7
66 and over	2.0	6.5	4.7	6.7

Source: Munnell and Zhivan (2006) using the 1992-2002 HRS data.
Note: Columns sum to 100.

To help workers who interrupt market work to care for a child or adult, we propose modifying the earnings requirement for IRAs.

men. Married women, on the other hand, are more likely to claim at the earliest claiming age than men, partly because married couples usually choose to retire at the same time and women tend to be married to older men.[32] Choosing later retirement ages thus could help women navigate retirement more easily.

A. Changes to Private Retirement Plans

Expanding IRA Eligibility to Caregivers

To help workers who interrupt market work to care for a child or adult, we propose modifying the earnings requirement for IRAs so that they have an opportunity to save in a tax-deferred environment even when interrupted employment leads to limited or no earnings. In a typical scenario, a parent (usually the mother) may take time off market work, either completely or partly, to care for children; or a family member (usually an adult child) or friend will interrupt work to care for an elderly person. Caregivers who have limited or no earnings would not be able to contribute (or be limited in what they can contribute) to an IRA under existing rules.[33] Under this proposal, caregivers could contribute to an IRA, up to the qualified contribution limit, and benefit from the preferred tax treatment.[34] The IRA could operate in conjunction with tax or financial incentives that target caregivers or more general incentives that increase retirement saving (such as the Saver's Credit).[35]

To be a qualified caregiver, the individual would have to demonstrate that they are providing care to children or adults and their income fell since they started providing care. The qualified contribution limit would be the IRA contribution limit based on the individual's adjusted gross income in the year prior to becoming a qualified caregiver. In other words, the caregiver would be able to contribute the same amount to her IRA after she becomes a qualified caregiver as she would have if she had not interrupted employment. The individual ceases to be a qualified caregiver if the individual's income returns to at least the pre-care giving level or the individual stops being a caregiver. At that point, the earnings exemption no longer applies and the individual must meet the usual IRA requirements.

We also propose modifying the Medicaid asset transfer rules so that qualified transfers from care-recipients to the IRA of qualified caregivers do not penalize the care-recipient from Medicaid nursing home benefits. Under current Medicaid rules, assets transferred by the Medicaid applicant during a specified window prior to applying for Medicaid nursing home benefits are added back to the applicant's assets and counted for eligibility determination, which could result in either delay or denial of Medicaid nursing home assistance for the care-recipient. We propose that the transferred amount, up to the caregiver's qualified contribution limit, be disregarded for eligibility determination under the Medicaid nursing home program.[36]

To ensure that these transfers from care-recipients to caregivers remain in the retirement system, the Medicaid asset exclusion would only apply if the transfer were made directly to the caregiver's IRA. The caregiver would receive the IRA tax treatment for the transfer and the care-recipient receives the Medicaid exclusion. If the care-recipient instead makes transfers directly to the caregiver, the Medicaid asset exclusion would not apply and the transferred amount would be subject to Medicaid's asset transfer rules.

For tax purposes, qualified transfers from care-recipients to qualified caregivers' IRAs would be considered a gift. This is because the majority of elderly care giving arrangements are informal (non-compensated) and involves an adult child or family member taking time off work, with a resulting fall in income, to care for an aging relative. The requirement that individuals demonstrate a fall in income

when they become a caregiver would preclude paid in-home aides from being a qualified caregiver. Therefore, transfers to qualified caregivers' IRAs should not be considered compensation.

Enabling care-recipients to reward their caregivers without being penalized for making the transfer has several benefits. First, if informal caregivers are rewarded for their care-giving efforts, they have a greater incentive to provide care and to provide it for a longer period of time. Second, care-recipients who prefer to remain in the community, in turn, are more likely to remain in the community longer when there are willing and available caregivers. Finally, extending the informal care-giving arrangement in the community and delaying entry into a nursing home could reduce the reliance on Medicaid nursing home assistance and, over time, reduce Medicaid nursing home expenditures.

The proposed IRA expansion for caregivers could usefully be supplemented by changes to Social Security rules. The spousal and survivor benefit formula partly compensates women for their home production (such as care-giving) rather than market work if their earnings are very low relative to their husband's. Similar adjustments, however, are not available to unmarried women and are available only to a limited extent to married women whose earnings are more similar to their husband's (through the survivor benefits). When workers interrupt market work to become a caregiver, the period of low or no earnings could depress future Social Security benefits. The Social Security benefit formula could be adjusted to remove the penalty for care-giving and proposals to that effect include either disregarding or imputing a wage for the years spent out of the labor force (years with zero or low earnings).[37]

Automatic 401(k) Plans

401(k)-type plans typically leave it up to the employee to decide whether or not to participate, how much to contribute, which investment option provided by their employer to select, and when and how to withdraw their assets when they retire. Each of these financial decisions is complicated and many workers who do not have the time or financial knowledge to make these decisions may shy away from them and make no decision at all. Or, when they do, they end up making poor choices.

It is, however, possible to harness the power of inertia to help individuals start saving earlier and more. There is a growing body of evidence that simply changing the default option in 401(k) plans from an opt-in system to an opt-out system, where individuals are automatically enrolled in the plan, can significantly increase retirement saving.[38] Inertia and procrastination, which were obstacles to participation under an opt-in 401(k) system, actually help increase enrollment in an opt-out system because doing nothing means being enrolled in the 401(k) plan.

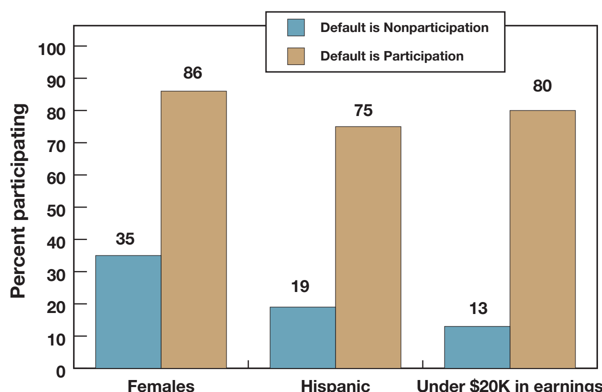
Automatic 401(k)s are most effective when combined with other automatic features such as: automatic enrollment with automatic escalation of benefits over time, automatic investment in prudent and diversified portfolio, and automatic rollover of retirement assets. Increasing the amount saved over time, improving investment outcomes, and retaining assets in the retirement system when there is a job change ultimately leads to higher retirement balances and improved retirement security. A strategy of saving earlier and more in 401(k)s will benefit all workers, but it is particularly relevant for women whose employment patterns make them more likely to experience job disruptions.

Automatic Enrollment

Automatic enrollment has been shown to raise 401(k) participation rates dramatically when applied to new hires, especially to new hires who are female,

members of minority groups, and/or low-earners (Figure 10).[39] Automatic enrollment often cuts nonparticipation rates from roughly 25 percent to as little as 5 or 10 percent of newly eligible employees. Workers will begin contributing to their 401(k) account at an earlier age than they would have in the absence of automatic enrollment and earn investment returns over a longer period of time.

Figure 10: Effects of Automated Enrollment on 401(k) Participation



Source: Madrian and Shea (2001)

Automatic Escalation

Building in annual increases in 401(k) contribution rates (automatic escalation) could further improve women's retirement saving. The vast majority of plans with automatic enrollment have a default contribution rate of only 3 percent or less, which is less than half of the average pre-tax contribution rate of about 7 percent of pay.[40] In the absence of automatic escalation, the majority of participants who are automatically enrolled tend to remain at the automatic contribution level.[41] Automatic escalation helps ensure that inertia does not keep these employees at the low initial default contribution rate.[42]

Building in annual increases in 401(k) contribution rates (automatic escalation) could further improve women's retirement saving.

Automatic Investment

When employees are confronted with an array of investment options, they may not have the time of the expertise to make prudent investment decisions and many 401(k)-type accounts fail basic standards of diversification and sound asset allocation: millions of workers are over concentrated in their employers' stock or over invested in safe but low-yielding money market funds. Automatic investment can direct assets into balanced, prudently diversified, and low-cost vehicles and can help discourage over concentration in employer stock and in low-yielding funds, such as money-market or stable value assets, unless the employee makes other choices.[43] This strategy could improve 401(k) asset allocation and investment choices while preserving employees' right to direct their accounts themselves if they so choose.

Automatic Rollover

When an employee switches jobs, the funds in her retirement account would be automatically rolled over into an IRA, 401(k) or other plan offered by the new employer (automatic rollover), unless the worker actively chooses otherwise. Automatic rollover can help participants retain previously accumulated retirement savings in the tax-favored retirement system when they change jobs. Recent empirical evidence suggests that a simple reframing of the options for pre-retirement distributions could reduce the proportion of lump-sum distributions and the resulting leakage from retirement accounts.[44]

Adoption of Automatic 401(k)s

The number of employers that offer automatic enrollment in 401(k) has been increasing each year. The Pension Protection Act (PPA) of 2006 addressed several employer concerns regarding automatic 401(k)s and provided new incentives to encourage more employers to adopt automatic 401(k)s.[45] According to a 2007 Wells Fargo survey, 44 percent of surveyed employers reported using automatic enrollment in 2007, an increase from 26 percent in 2006. Among employers with automatic 401(k)s, 42 percent use 3 percent as the default contribution rate while 20 percent use a default rate that is higher than 3 percent.[46] About one quarter of employers who offer automatic enrollment also automatically escalate contributions.[47]

More remains to be done to expand and improve the automatic 401(k). Plans that use automatic features need further encouragement to evolve from what we call "first generation" to "second generation" automatic features.[48] A "first generation" automatic 401(k) might typically automatically enroll only new hires at a 3 percent contribution rate, without escalation. Investments would be in a stable value or money market fund.

A "second generation" automatic 401(k) improves on each of these default choices. It would automatically enroll both new hires and existing nonparticipating employees at a 5 or 6 percent automatic contribution, escalating automatically up to a significantly higher level. Assets would be invested automatically (i.e., by default) in a low-cost professionally managed account or life cycle fund.

Automatic IRAs

Automatic 401(k)s have been successful at increasing retirement plan participation, but they only apply to workers with employer-sponsored retirement plans.[49] One out of every two workers, an estimated 75 million workers, has no access to such plans.[50] These tend to be part-time workers or workers with short job tenure and, as noted earlier, workers with these characteristics tend to be women. A new proposal would create a system whereby workers without access to employer-sponsored retirement plans can contribute to a low-cost, diversified IRA through direct payroll deposits. IRAs are portable and are not tied to a particular employer and employees can continue to contribute to IRAs even when they switch jobs.[51]

Bipartisan legislation has recently been proposed to implement the automatic IRA.[52] Under this proposal, workers would be enrolled in an IRA and deposits to the IRA will be made automatically at each pay period, unless the employee actively chooses not to participate in the program. A firm that is not ready to adopt a 401(k) or other retirement plan would offer its employees the ability to save in an IRA every payday by payroll deposit, much as millions of employees have their paychecks deposited directly to their bank accounts. It is easier to save small amounts on a regular basis; and once payroll deposits begin, they continue automatically unless the worker later opts out. Employers above a certain size (e.g., ten employees) that have been in business for at least two years but that still do not sponsor any plan for their employees would be required to offer employees this payroll-deduction saving opportunity.

The automatic IRA would involve no contributions or other outlays by employers, who would merely offer their payroll system as a conduit that employees could use to save part of their own wages in an IRA. Participating employers would receive temporary tax credits, would be required to obtain a written waiver from any employee who does not participate, would be encouraged to use automatic enrollment, and would be able to protect themselves from fiduciary liability. Employees, or the employer, could designate the IRA to receive the savings, including, as a fallback for those unable or unwilling to choose, a national platform IRA that could be based on the federal employees' Thrift Savings Plan accounts. The default investment would be a diversified, low-cost life cycle fund, with other choices available.[53] The self-employed would be encouraged to save by extending payroll deposit to independent contractors, facilitating direct deposit of income tax refunds, and expanding access to automatic debit arrangements linked to IRAs, including on-line and traditional means of access through professional and trade associations.

B. Additional Polices for Moderate- and Low-Income Families

As noted earlier, more women are choosing to remain unmarried and have children outside of marriage, particularly among women with lower education attainment in recent years. While incentives to increase saving in 401(k)s

and IRAs will be beneficial for all women, including women with lower- and moderate- income, the tax incentives to save are weaker for them than for higher-income households because the value of the tax benefit depends on the families' tax bracket and they are in a lower tax bracket. In addition, eligibility rules for certain means-tested programs that would be beneficial for lower-income women, such as the Food Stamp program and Medicaid, actually penalize families for saving for retirement. Therefore, we propose tax incentives that are particularly beneficial for moderate- and lower-income households and policies that remove the penalty to saving and make saving easier.

Saver's Credit

The Saver's Credit was specifically designed to benefit moderate- and lower-income families.[54] The Saver's Credit, which was enacted in 2001, gives taxpayers earning less than $52,000 a tax credit for contributions to 401(k) plans, IRAs, and similar retirement savings vehicles. Depending on the taxpayer's income, households can receive a credit of either 10, 20, or 50 percent of their contributions to a retirement account.

In its present form, however, the Saver's Credit is nonrefundable: it merely offsets a taxpayer's tax liability, providing no saving incentive for almost 50 million lower-income households that have no income tax liability. Making the Saver's Credit refundable would provide an important incentive to these households to save regularly and continually. It would also help secure the retirement of those with the lowest incomes, thus making them less dependent on Social Security income and means-tested government programs during their retirement years. There is also evidence that restructuring the credit as a matching contribution that is automatically deposited into an IRA could increase the incentive to save.[55]

Simplifying the Saver's Credit with a single 50 percent credit rate, phased out smoothly above the income eligibility limit, and expanding the eligibility limit to include households with income of up to $70,000 per year would increase the incentive to save and help middle-class Americans, including women, save for a secure retirement.

Asset Tests

Outdated asset tests in means-tested public assistance programs (such as Food Stamps, Supplemental Security Income, Temporary Assistance for Needy Families (TANF) and Medicaid) penalize lower- and moderate-income households that save.[56] Beneficiaries of many of these programs tend to be women. To be eligible, applicants generally must meet an asset test as well as an income test. While the asset tests usually do not count accrued benefits under a DB plan as assets, too often they do count 401(k) or IRA balances or both. This has the effect of a steep implicit tax on 401(k) and IRA saving. As a result, families with incomes low enough to qualify for a means-tested program under the income test might respond by saving less.

Although some state programs have eliminated asset tests, or at least aligned the treatment of DC plans with that of DB plans, many have not. Asset tests treat retirement saving in a confusing and seemingly arbitrary manner, with different restrictions state-by-state and account-by-account. Congress and the states should therefore eliminate this implicit tax on retirement saving by mandating that retirement accounts such as 401(k)s and IRAs be disregarded for eligibility and benefit determinations in federal and state means-tested programs. Changing the law to exempt retirement accounts from being considered in means-tested programs would treat retirement savings fairly and consistently and would send an important signal to families that rely or might need to rely on means-tested programs in the future: you will not be penalized for saving for retirement.

Eliminating asset rules for retirement savings will have some short-term costs as additional lower-income households will qualify for and use means-tested

benefit programs. However, these costs should be modest; and if moderate- and low-income households can save for a more secure retirement, fewer people will have to rely on public benefits in old age.

Split Refunds

In any given year, most American households receive an income tax refund. For many, the refund is the largest single payment they can expect to receive each year. In 2004, over 100 million individual income tax filers (out of a total of 131 million) were eligible for tax refunds averaging more than $2,000 each (resulting mainly from overpayment of withholding taxes). For many middle-income families, the refund presents a unique opportunity — a "savable moment" — to increase personal savings, whether for retirement or for shorter-term needs.[57] This is particularly true since there is evidence suggesting that many people tend to view large, extraordinary payments (such as their tax refunds) as separate and different from their normal wages or other income.[58]

Until recently, however, tax filers could only designate one account at a financial institution to which their tax refund could be deposited. This all-or-nothing approach discourages many households from saving any of the refund. When some of the refund is needed for immediate expenses (as is often the case), depositing the entire amount in a saving account, such as an IRA, is not a feasible option. As a consequence, while more than 49 million tax filers in 2004 received their federal tax refunds by direct deposit, fewer than 3 percent of tax filers directed their refund into a savings account.

Allowing households to split their refunds makes saving simpler and, therefore, more likely. A middle- or lower-income household that wishes to save can do so by directing part of the refund into a saving account. Since federal income tax refunds total nearly $230 billion a year, even a modest increase in the proportion of refunds saved every year could bring about a significant increase in retirement saving.

Beginning in the 2007 tax filing season, the Internal Revenue Service (IRS) permitted tax filers to split the direct deposit of their refunds between two or three accounts. Although the new ruling was not widely publicized, almost 80,000 tax filers instructed the IRS to deposit their refund into two or more accounts. More should be done for subsequent tax filing seasons to inform tax filers and preparers about the ability to split refunds. Use of tax preparation software that is programmed to permit direct deposits to multiple accounts should also increase the proportion of tax filers who save during tax filing season.

Additional Areas for Consideration

In addition to the specific policy recommendations above, there are a number of key areas where further policy development could prove extremely helpful for women in retirement.

A. Annuitization

A critical component of retirement security for women would include a strategy to increase annuitization of retirement assets. Guaranteed lifetime income products provide insurance against outliving one's retirement resources, which make them particularly valuable to women because they have longer life spans than men and must fund a longer retirement period.

Despite the benefits, the market for guaranteed lifetime income products in the United States is very thin. In their current form, annuities lock in wealth that may be needed for medical expenses or bequests; they tend to be (or are widely perceived as being) priced too high for an individual with average life expectancy or too complex for ordinary consumers to understand and compare; the product and market structure exposes consumers and suppliers to considerable risks (such as interest rate risks or reinsurance risks); and regulation has limited the attractiveness of purchasing annuities through employer-sponsored retirement plans.

Elderly women's consumption in retirement could be increased by tapping into their housing equity through reverse mortgages.

In addition to these financial barriers, behavioral biases may also inhibit the demand for guaranteed lifetime income products. Individuals may be reluctant to convert a lump sum into a stream of payments because they perceive the exchange to be a bad deal or a loss - perhaps because they have a sense of ownership over the lump sum instead of a stream of payments or they are overly concerned with the possibility that they may die soon after converting their lump sum to a stream of payments.

The market for guaranteed lifetime income products needs to be restructured to accommodate the potential growth in demand as more workers retire with large DC balances. The reinsurance market for guaranteed lifetime income products will likely require a "jump-start" through some form of government involvement. A more developed reinsurance market will likely reduce at least one component of suppliers' costs, which may make available a wider variety of guaranteed lifetime income product features at lower prices. Consumers also need appropriate incentives to overcome financial, psychological and emotional barriers to annuitization. Small, periodic contributions to a lifetime income fund should mitigate the aversion to "giving up" a large lump-sum; presenting information on retirement benefits as an income stream rather than a lump sum may help attune workers to the notion of annuitization, and automating the accumulation and the annuitization stage will likely make the annuitization decision effortless and, therefore, less costly.

The vast store of wealth in 401(k) plans provides a potential launching point for a new lifetime guaranteed income product. An alternate delivery mechanism for a new guaranteed lifetime income product may also be necessary to reach the nearly 75 million workers with no employer-sponsored retirement coverage. As the market for guaranteed lifetime income grows, the establishment of a federal "insurer of last resort" may be necessary to protect annuitants if suppliers face catastrophic losses.

B. Housing Equity

The most important financial asset for most elderly households is housing equity; yet, the elderly do not appear to be consuming their housing wealth. The proportion of elderly persons who are income-poor but housing equity-rich is sizeable and this group tends to be mostly widows.[59] Elderly women's consumption in retirement could be increased by tapping into their housing equity through reverse mortgages. This financial product allows the elderly person to withdraw equity from the home without having to sell or move out of the home. This latter feature appears to be particularly appealing to home-owners.

Despite the possibility of increased consumption in retirement through reverse mortgages, the demand for this financial product is quite low. One possible explanation is that many homeowners want to leave a bequest to their children. Leaving the house to their children (instead of selling it before they die) allows them to benefit from the step-up in basis, which reduces their tax liability. In order to design incentives to encourage home-owners to tap into their housing equity, more work needs to be done to understand why the current market for reverse mortgages is thin.[60]

C. Medical and Long-Term Care Expenses

A significant proportion of elderly persons will face some out-of-pocket health expenses despite health insurance coverage through the Medicare program. On average, medical out-of pocket (MOOP) expenses in the mid- to late-1990s accounted for about 10 to 20 percent of elderly persons' income. For the elderly living under the poverty line, MOOP spending was as much as 30 percent of income.[61]

At each age, women are estimated to face higher expected health care costs for their remaining lifetime than men. This result is partly attributable to women's

longer life-span; however, even when differences in male-female survival probabilities are accounted for, expected female spending remains higher than men.[62] In 2003, among Medicare beneficiaries, MOOP expenses averaged 24 percent of income for females compared to 19 percent for males.[63]

MOOP spending on institutional care, such as nursing home care, also tends to be higher for women than for men. Women's greater longevity makes them more likely to live to ages where the risk of needing long-term care (LTC) is high.[64] Women are also more likely to outlive their husbands which leaves them without a partner or spouse to care for them should they need LTC. Not surprisingly, almost three-quarters of nursing home users are women, most of whom are unmarried.[65] Nursing home costs in 2006 averaged about $70,000 a year and the average length of stay for current residents was 2.5 years.[66] The Medicaid program may cover some part of that cost but MOOP spending for nursing home would still be substantial.[67] One study estimates that over a ten-year period, entry into a nursing home leads to a drop in household wealth of $20,000 for unmarried women (equal to 60 percent of median wealth) and $40,000 for married women (equal to a third of median wealth). The study found that wealth changes for men were much smaller.[68]

As a consequence, the risk of incurring out-of-pocket nursing home expenses has been regarded as primarily a woman's risk. Although the Medicaid program provides coverage for long-term care costs, the conditions for eligibility can be restrictive.[69] Given burgeoning state budget pressures, the eligibility criteria for the Medicaid program could potentially tighten in the future, which would shift more of the risk of out-of-pocket nursing home expenses to nursing home recipients or their family members

Given the high cost of nursing home care and limited public coverage, the potential benefit of having LTC insurance coverage to protect against out-of-pocket nursing home costs should be high — particularly for women.[70] In practice, however, demand for LTC insurance is low. This may be because individuals underestimate their risk of needing long-term care, mistakenly believe Medicare (the health insurance program for the elderly) will cover LTC costs or, if they are aware of Medicare's limited coverage, they plan to rely on the Medicaid program as the insurer of last resort.[71]

Greater efforts to educate and inform individuals about their risk of incurring out-of-pocket nursing home costs are needed. Learning about the potential risk of needing LTC, particularly among elderly, single women, and learning about the limited scope of the coverage under the Medicare and Medicaid programs will, over time, change individual perceptions about saving for LTC expenses.

The thin market for LTC insurance may also be due to current product and market limitations. Most elderly individuals prefer to “age in place” - meaning they prefer to receive LTC services in their home rather than in an institution. The current emphasis in the U.S., however, is on LTC services at the institutional level. In addition, the availability of skilled home care workers is limited or priced too high for the average consumer. Financial incentives and structures need to be designed to enable the market to evolve and align with the LTC preferences of consumers.

Conclusion

Elderly women today have lower retirement resources than elderly men, and it is projected that these gender differences will persist for future cohorts of retirees, despite secular improvements in women's earning power. Yet, women will have greater need for retirement resources because they tend to outlive their husbands, face a decline in income at widowhood and incur out-of-pocket medical expenses from their husband's death or their own medical needs. These problems can be addressed through a series of policy reforms that will help women save more and secure access to sufficient resources to fund their retirement.

As a consequence, the risk of incurring out-of-pocket nursing home expenses has been regarded as primarily a woman's risk.

Endnotes

1 We thank William G. Gale, Melissa Green, Benjamin Harris, J. Mark Iwry and David John for very helpful comments. Andrew Gisselquist, Catherine Lee, Gina Russell, and Spencer Walters provided outstanding research assistance. We are grateful to Karen Holden, Cathleen Zick, Ethan Lewis and Mark Doms for sharing their data.

2 Recent contributions include Jonathan Skinner, "Are You Sure You're Saving Enough for Retirement?," Journal of Economic Perspectives, Vol. 21, No. 3, Summer 2007; and Shlomo Benartzi and Richard Thaler, "Heuristics and Biases in Retirement Savings Behavior," Journal of Economic Perspectives, Vol. 21 No. 3, Summer 2007.

3 Some of the major institutional changes over the first half of the 20th century include increases in the demand for office workers and part-time workers, growth in postsecondary institutions and improvements in home technology that reduced the time spent on housework. See Claudia Goldin, "The Quiet Revolution that Transformed Women's Employment, Education, and Family," NBER Working Paper, 2006, available at www.nber.org.

4 In a given year, women are more than twice as likely as men to work part-time (BLS, 2004). Among those in the baby boom cohort (born between 1946 and 1960), half of women are projected to have 6 or more years with no earnings compared to a third of men (Chad Newcomb, "Distribution of Zero-Earnings Years by Gender, Birth Cohort, and Level of Lifetime Earnings," Social Security Administration Research and Statistics Note No. 2000-02, 2000, available at www.ssa.gov).

5 See Francine D. Blau and Lawrence M. Kahn, "Gender Differences in Pay," NBER Working Paper No. 7732, 2000, available at www.nber.org.

6 GAO, October 2003, "Women's Earnings: Work Patterns Partially Explain Difference between Men's and Women's Earnings." Available at http://www.gao.gov/new.items/d0435.pdf.

7 There is some evidence that the narrowing wage gap is partly due to the selection of women with higher earnings potential entering the labor force in the 1980s. See Mark Doms and Ethan Lewis, "The Narrowing of the Male-Female Wage Gap", FRBSF Economic Letters, february 2008, for more discussion.

8 Authors' calculation using the 2004 Survey of Consumer Finances (SCF).

9 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2004," EBRI Issue Brief No. 286, 2005, available at www.ebri.org.

10 Vickie L. Bajtelsmit and Nancy A. Jianakoplos, "Women and Pensions: A Decade of Progress?," Employee Benefit Research Institute Issue Brief No. 227, 2000, available at www.ebri.org; Peggy D. Dwyer, James H. Gilkenson, John A. List, "Gender Differences in Revealed Risk Taking: Evidence from Mutual Fund Investors," *Economic Letters*, pp. 151-58, 2002; Annika E. Sunden, and Brian J. Surette, "Gender Differences in the Allocation of Assets in Retirement Savings Plans," *The American Economic Review*, Vol. 88, No. 2, pp. 207-211, 1998; Leslie E. Papke, "How Are participants Investing Their Accounts in Participant Directed Individual Account Pension Plans?," *The American Economic Review*, Vol. 88, No. 2, pp. 212-216, 1998; Leslie E. Papke, "Individual financial decision in retirement saving plans: the role of participant-direction," *Journal of Public Economics*, Vol. 88, pp. 39-61, 2003.

11 When employee contributions are made to DB plans (which is far less common than employee contributions to 401(k)s), those are immediately vested as well. Employer contributions to DC plans must vest at least as fast as either 100 percent ("cliff vesting") after 3 years of service or ratably beginning at 2 years and reaching 100 percent vesting after 6 years of service. Employer contributions to DB plans must vest at least as fast as either 100 percent after 5 years of service or ratably beginning at 3 years and reaching 100 percent vesting after 7 years of service. Internal Revenue Code Section 411(a)(2).

12 Hewitt, "Survey Findings: Trends and Experiences in 401(k) Plans", 2005.

13 Life expectancy from birth is taken from Elizabeth Arias, "United States Life Tables, 2003," National Center for Health Statistics, 2006, available at www.cdc.gov/nchs.

14 Women fare poorly relative to men if annuity rates are based on age and gender. Currently, not all private annuity contracts use gender in computing annuity rates. If, instead, gender-neutral annuity rates are used, women will fare better than men because of their longer life-span. 401(k) plans are required to use gender-neutral pricing to compute annuity values and this may partly explain the higher annuitization rates among female TIAA-CREF participants than male participants. See John Ameriks, "The Retirement Patterns and Annuitization Decisions of a Cohort of TIAA-CREF Participants," TIAA-CREF Research Dialogues, No. 60, 1999, available at www.tiaa-crefinstitute.org.

15 401(k) plans have rules that protect the spouse as a beneficiary. If the married worker chooses to take distributions as an annuity, the spouse is protected under ERISA rules regarding spousal annuity. If the worker dies before receiving benefits, the assets automatically go to the surviving spouse. Spousal consent is also required if the married worker decides to select a beneficiary other than the spouse (U.S. Department of Labor).

16 Karen Holden and Sean Nicholson, "Selection of a Joint-and-Survivor Pension," Discussion Paper No. 1175-98, University of Wisconsin, Institute for Research on Poverty, 1998.

17 Divorce rates more than doubled between 1960 and 1980 and have been gradually declining since 1980. For additional discussion, see *The National Marriage Project, The State of our Unions, 2007: Social Health of Marriage in America*, Rutgers, The State University of New Jersey, New Jersey, July 2007.

[18] As opposed to earlier decades, college-educated women have been marrying at higher rates than their peers since the 1980s.

[19] Data for 1960 through 1994: Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, 1997, "Trends in the Well-Being of America's Children & Youth." PF2.2: Percentage of All Births to Unmarried Mothers. Available at http://aspe.hhs.gov/hsp/97trends/PF2-2.htm. Data through 2005: Federal Interagency Forum on Child and Family Statistics, 2007, "America's Children: Key National Indicators of Well-Being, 2007." Table FAM2.B: Births to Unmarried Women: Percentage of All Births to Unmarried Women by Age of Mother, 1980-2005. Available at http://www.childstats.gov/americaschildren.

[20] Allen Dupree and Wendell Primus, Declining Share of Children Lived with Single Mothers in the Late 1990s: Substantial Differences by Race and Income, Center of Budget and Policy Priorities, June 2001, http://www.cbpp.org/6-15-01wel.htm

[21] One reason is that unmarried women do not benefit from the economies of scale that make living as a married couple less expensive than living as two separate individuals.

[22] Data from Census Bureau at http://www.census.gov/population/socdemo/hh-fam/fm1.xls

[23] Kathleen McGarry and Robert F. Schoeni. "Widow(er) poverty and out-of-pocket medical expenditures at the end of life." *Journals of Gerontology Series B: Psychological Sciences and Social Sciences*, 60(3): S160-S168. 2005.

[24] Nadia Karamcheva and Alicia H. Munnell "Why Are Widows So Poor?," Center for Retirement Research, 2007, available at www.crr.bc.edu.

[25] McGarry and Schoeni (2005).

[26] Karamcheva and Munnell (2007). Purvi Sevak, David R. Weir and Robert J. Willis, "The Economics of a Husband's Death: Evidence from the HRS and AHEAD," Social Security Bulletin Vol. 65, No. 3, 2003, available at www.ssa.gov and McGarry and Schoeni (2005) find similar results. Sevak, Weir and Willis (2003) find that among non-poor married couples aged 70 or more, 12 percent became poor after losing a husband. Similarly, Johnson, Mermin, and Uccello (2006) find that a husband's death increases a women's risk of transitioning into poverty by 36 percent.

[27] Figure from Karen Holden and Cathleen Zick (1998), "Insuring against the Consequences of Widowhood in a Reformed Social Security System," in *Framing the Social Security Debate* edited by R. Douglas Arnold, Michael Graetz, and Alicia Munnell, Brookings Institution Press and the National Academy of Social Insurance: 165-7, 1998.

[28] Blau and Kahn (2000).

[29] Timothy M. Smeeding, "Social Security Reform: Improving Benefit Adequacy and Economic Security for Women," *Aging Studies Program Policy Brief*, Center for Policy Research, Maxwell School of Citizenship and Public Affairs, 1999, available at cpr.maxwell.syr.edu.

[30] The normal retirement age is 65 for those born in 1937 and earlier. It will increase gradually over time. For cohorts born in 1960 and later, the normal retirement age is 67.

[31] A 65 year old woman in 2004 could expect to live another 20 years whereas a 65 year old man could expect to live another 17 years (CDC, National Center for Health Statistics, 2006, available at www.cdc.gov/nchs).

[32] Courtney Coile, "Retirement Incentives and Couples' Retirement Decisions," *Topics in Economic Analysis and Policy*, Vol. 4, Issue 1, 2004.

[33] IRA earnings rules are based on household earnings. If the non-caregiving spouse continues to work, the caregiver may continue to be eligible to contribute.

[34] The current IRA contribution limits are $4,000 ($5,000 if age 50 and older) for 2007 and $5,000 ($6,000 for age 50 and older) for 2008. After 2008, the contribution limit will be annually indexed in $500 increments, adjusted for the cost-of-living (COL). See http://www.law.cornell.edu/uscode/html/uscode26/usc_sec_26_00000219----000-.html#b_1_A. and Internal Revenue Service publication, http://www.irs.gov/pub/irs-pdf/p590.pdf, for the details of current IRA law.

[35] The United Kingdom provides a Carer's Allowance for care-givers who meet certain requirements.

[36] Under current Medicaid rules, transfers made within 60 months of applying for Medicaid assistance will delay or disqualify eligibility. The delay varies with the value of the transfer (assuming the applicant also meets the income and needs criteria).

[37] See Pamela Herd, "Crediting Care of Marriage? Reforming Social Security Family Benefits," *Journal of Gerontology: Social Sciences*, Vol. 61B no. 1, pp. S24-S34, 2000; and Howard Iams and Steven Sandell. "Changing Social Security Benefits to Reflect Child-Care Years: A Policy Proposal Whose Time has Passed?," Social Security Bulletin, Vol. 57, no. 4, pp. 10-24, 1994.

[38] See J. Mark Iwry, William G. Gale, and Peter R. Orszag, "The Potential Effects of Retirement Security Project Proposals on Private and National Savings: Exploratory Calculations," (Retirement Security Project Policy Brief No. 2006-2, November 2006; available at www.retirementsecurityproject.org). The study estimates that the automatic 401(k) could bring about a net increase of $44 billion a year in national saving.

[39] Brigitte Madrian and Dennis Shea, "The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior," Quarterly Journal of Economics 116, no. 4 (November 2001):1149-87; and James Choi and others, "Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance," in Tax Policy and the Economy, Vol. 16, edited by James Poterba (MIT Press, 2002), pp. 67-113. Related approaches have also proven effective, but generally are less powerful. One such approach is to require employees to make an explicit election so that inertia does not prevent employees from participating or lead them to contribute less than they would if they were required to choose. Another approach presents employees with a presumptive contribution rate packaged together with an investment option - not as a default, but as an easy choice employees can make by checking a single box.

[40] Hewitt Associates, Trends and Experiences in 401(k) Plans 2005 survey. In 2005, the proportion was 75 percent. More recent data are available from the 2007 Hewitt survey.

[41] Between 65-87 percent of new plan participants save at the default contribution rate. This percentage declines slowly to 40-54 percent after two years and to about 45 percent after three years (James Choi, David Laibson, Brigitte Madrian and Andrew Metrick, "For Better or For Worse: Default Effects and 401(k) Savings Behavior," in Perspectives on the Economics of Aging, edited by D. Wise, University of Chicago Press, 2004, pp. 81-121).

[42] Richard Thaler and Shlomo Benartzi, "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving," Journal of Political Economy 112, no. 1, pt. 2 (2004), S164-S187.

[43] William G. Gale and J. Mark Iwry, "Automatic Investment: Improving 401(k) Portfolio Investment Choices," (Retirement Security Project Policy Brief No. 2005-4, May 2005; available at www.retirementsecurityproject.org); William G. Gale, J. Mark Iwry, Alicia H. Munnell, and Richard H. Thaler, "Improving 401(k) Investment Performance," (Center for Retirement Research Issue Brief No. 2004-26, December 2004; available at www.bc.edu/crr); and J. Mark Iwry, "Promoting 401(k) Security," (Urban-Brookings Tax Policy Center, September 2003; available at www.taxpolicycenter.org).

[44] William G. Gale and Michael Dworsky, "Effects of Public Policies on the Disposition of Lump-Sum Distributions: Rational and Behavioral Influences," (Center for Retirement Research Working Paper No. 2006-15, August 2006; available at www.bc.edu/crr).

[45] See William G. Gale, J. Mark Iwry and Spencer Walters, “Retirement Saving for Middle- and Lower-Income Households: The Pension Protection Act of 2006 and the Unfinished Agenda” (Retirement Security Project Policy Brief No. 2007-1, January 2007) for additional details.

[46] Wells Fargo, “Strategic Initiatives in Retirement Plans” 2007 Survey Analysis.

[47] According to the 2007 Wells Fargo Survey, 21 percent of employers that offer automatic enrollment also automatically escalate contributions. According to the Hewitt Trends and Experience in 401(k) Plans 2007 Survey, 28 percent of employers that automatically enroll participants also automatically escalate contributions.

[48] Gale, Iwry and Walters (2006) set out the “first generation” - “second generation” automatic 401(k) concepts and discusses them more fully.

[49] Among wage and salary workers ages 18-64, an estimated 60.5 workers do not have access to employer-sponsored retirement plans. Authors' calculation using the March 2006 CPS data.

[50] Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2005: Employee Benefit Research Institute Issue Brief No. 299," November 2006, Figure 1, p. 7. An additional 16 million workers either are not eligible for their employer's plan or are eligible but fail to participate. Quantitatively similar but updated figures for 2006 are available in the Employee Benefit Research Institute Issue Brief 311.

[51] See J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs," (Retirement Security Project Policy Brief No. 2007-2, April 2007); J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs," Testimony before the Senate Finance Committee, June 29, 2006. These and related publications are available at www.retirementsecurityproject.org.

[52] S. 1141 and H.R. 2167.

[53] For a detailed description of the automatic IRA, see J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs," (Retirement Security Project Policy Brief No. 2007-2, April 2007).

[54] J. Mark Iwry, William G. Gale, and Peter R. Orszag, "The Saver's Credit," (Retirement Security Project Policy Brief No. 2005-2, March 2005; available at www.retirementsecurityproject.org); and J. Mark Iwry, William G. Gale, and Peter R. Orszag, "The Saver's Credit: Issues and Options," (Tax Policy Center Tax Notes, May 3, 2004; available at www.taxpolicycenter.org).

[535] The explicit 50 percent credit is an implicit 100 percent match. For an example, consider a couple earning $30,000 who contributes $2,000 to a 401(k) plan. The Saver's Credit reduces that couple's federal income tax liability by $1,000 (50 percent of $2,000). The net result is a $2,000 account balance that costs the couple only $1,000 after taxes (the $2,000 contribution minus the $1,000 tax credit). This is the same result that would occur if the net after-tax contribution of $1,000 were matched at a 100 percent rate: the couple and the government each effectively contribute $1,000 to the account. While taxpayers should respond the same to equivalent implicit and explicit matches, empirical research provides evidence to

the contrary. For a detailed discussion, see Esther Duflo, William Gale, Jeffrey Liebman, Peter Orszag, and Emmanuel Saez, "Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block," Quarterly Journal of Economics, Volume 121, Issue 4, 2006.

56 For a detailed discussion of this issue, see Zoë Neuberger, Robert Greenstein, and Eileen P. Sweeney, "Protecting Low-Income Families' Retirement Savings: How Retirement Accounts Are Treated in Means-Tested Programs and Steps to Remove Barriers to Retirement Saving," (Retirement Security Project Policy Brief No. 2005-6, June 2005; available at www.retirementsecurityproject.org).

57 In fiscal year 2004, individual income tax refunds amounted to $228 billion and went to 106 million out of a total of 131 million individual income tax returns (IRS Databook FY 2004, publication 55b, tables 1,2,8,9).

58 Hersh M. Shefrin and Richard H. Thaler, "Mental Accounting, Saving, and Self-Control," in Choice Over Time, edited by G. Lowenstein and J. Elster (New York City: Sage Foundation, 1992).

59 Steven Venti and David Wise, "Aging and Housing Equity: Another Look," National Bureau of Economic Research Working Paper No. 8606 (November, 2001).

60 Although the market for reverse mortgages has grown rapidly over the last few years, it still remains quite small. Davidoff and Welke (2005) estimate that less than one percent of eligible homeowners purchase reverse mortgages, even though there are a large number of older homeowners who are housing-rich and income-poor (Thomas Davidoff and Gerd Welke, "Selection and Moral Hazard in the Reverse Mortgage Market," Haas School of Business, University of California Berkeley working paper, October, 2005). There is mixed evidence of adverse selection and moral hazard in the market. Potentially, the presence of Medicaid may undermine demand. Andrew Caplin, "Turning Assets into Cash: Problems and Prospects in the Reverse Mortgage Industry," in *Innovations in Retirement Financing*, edited by Olivia S. Mitchell, Zvi Bodie, P. Brett Hammond, and Stephen Zeldes. (University of Pennsylvania Press, 2000) chapter 11.

61 David S. Johnson and Timothy M. Smeeding, "Who are the Poor Elderly? An Examination Using Alternative Poverty Measures," Unpublished manuscript, 2000. The Census Bureau also calculates an adjusted poverty rate by age and finds that, in 2005, overall elderly poverty would have risen from 10.2 percent to 16.4 percent if MOOP spending were deducted from family income (Census Bureau, Poverty Measurement Studies and Alternative Measures, 2007).

62 Berhanu Alemayehu and Kenneth E. Warner, "The Lifetime Distribution of Health Care Costs," *Health Services Research*, Vol. 39, Issue 3, pp. 627-642, 2004.

63 Craig Caplan and Normandy Brangan, "Out-of-Pocket Spending on Health Care by Medicare Beneficiaries Age 65 and Older in 2003," AARP Research Report, 2004, available at www.aarp.org.

64 Peter Kemper and Christopher Murtaugh, "Lifetime Use of Nursing Home Care," *New England Journal of Medicine*, Vol. 324, pp. 595-600, 1991.

65 Unmarried women include never married, divorced, and widows. William D. Spector, John A. Fleishman, Liliana E. Pezzin, Brenda C. Spillman, "The Characteristics of Long-Term Care Users", AHRQ Research Report. AHRQ Publication No. 00-0049, 2001, available at www.ahrq.gov.

66 The average cost for a private room was $75,000 annually, while an average semi-private room cost $67,000 ("The Metlife Market Survey of Nursing Home & Home Care Costs", MetLife Mature Market Institute, 2006, available at www.metlife.com). Length of stay data are from the 1997 National Nursing Home Survey (National Center for Health Statistics, 1997, available at www.cdc.gov/nchs).

67 Among full-year residents in 1996, Medicaid financed 58 percent of expenses and 33 percent was paid out of pocket (total expenses for this group amounted to $36,368). Medical Expenditure Panel Survey Research Findings #13: Expenses and Sources of Payment for Nursing Home Residents, 1996, available at www.meps.ahrq.gov.

68 Individuals ages 70 and older are observed between 1993 and 2002 and median wealth for unmarried and married women are measured in 1993. During the same period, real median wealth increased by 19.7 percent for individuals who did not receive nursing home care. See Richard W. Johnson, Gordon B.T. Mermin, and Cori E. Uccello, "When the Nest Egg Cracks: Financial Consequences of Health Problems, Marital Status Changes, and Job Layoffs at Older Ages," Urban Institute, 2006, available at www.urban.org.

69 The statutory asset limits for eligibility are $2,000 for a single individual and $3,000 for a couple. At these levels, individuals must virtually deplete their resources before they can qualify for Medicaid nursing home assistance. Some states have exceptions that disregard certain assets (such as, assets used to purchase an irrevocable Medicaid annuity) and these exceptions raise the effective asset limits. Although the effective asset limits are substantially higher in a small number of states, even with the exceptions, the effective asset limits are still relatively low for the majority of states.

70 Evidence suggests that more risk-averse individuals or individuals who are at greater risk of needing nursing home care are more likely to buy LTC insurance. See Amy Finkelstein and Kathleen McGarry, "Multiple dimensions of private information: evidence from the long-term care insurance market," *American Economic Review*, Vol. 96 No. 4, pp. 938-958, 2006.

71 Jeffrey Brown and Amy Finkelstein, "Why is the Market for Long-Term Care Insurance so Small?," Massachusetts Institute of TechnologyWorking Paper (February 2007).

Leslie E. Papke is Professor of Economics at Michigan State University.

Lina Walker is Director of Research at The Retirement Security Project and Research Professor at Georgetown University.

Michael Dworsky is a graduate student at Stanford University, and was formerly a Senior Research Assistant at the Brookings Institution.

The views in this paper are those of the authors alone and should not be attributed to the Brookings Institution, Georgetown University's Public Policy Institute, The Pew Charitable Trusts, or any other institutions with which the authors and the Retirement Security Project are affiliated.

Copyright 2008

Mission Statement

The Retirement Security Project is dedicated to promoting common sense solutions to improve the retirement income prospects of millions of American workers.

The goal of The Retirement Security Project is to work on a nonpartisan basis to make it easier and increase incentives for middle- and lower-income Americans to save for a financially secure retirement.

1775 Massachusetts Ave., NW
Washington, DC 20036
p: 202.741.6524 f: 202.741.6515
www.retirementsecurityproject.org