Retirement Saving Policy

State-Sponsored Retirement Savings Plans: The Potential Effect on Women

Cindy Hounsell
President, Women’s Institute for a Secure Retirement (WISER)

A state-sponsored retirement savings plan could help millions of private-sector workers who are not covered by an employer plan to build financial security. Several features will help a plan become more effective and produce more secure retirements. This report discusses how those plans can meet the special needs of women.

American workers are not saving enough for retirement. Although no one wants to face the prospect of running out of money in retirement, the majority of Americans ages 44 to 75 see it as a fate worse than death. The risk of not having enough retirement income or outliving retirement assets is higher for women than for men, and higher still for minority and moderate- to low-income women.

A host of obstacles during women’s working years get in the way of their future financial security. They live longer, earn less; take time out of the work force to provide family care, to work part time, and to work in jobs without a retirement plan; and are likely to live alone at some point in retirement. All those factors make it that much harder for women to prepare for their retirement.

The reality of today’s retirement landscape for many women is to do it alone and to do it right or to face the consequence of living at or near the edge of poverty in old age. Today’s retirement system of individual responsibility requires access to unbiased information about the unique issues women face and about access to retirement savings opportunities. Like men, women also need help with basic financial literacy. But with fewer resources, they are unable to afford even a small mistake or bad decision.

Benefits and Design of State-Based Retirement Plans

State-based retirement plans could provide access to retirement savings accounts for millions of women who have no access to any workplace savings opportunities and could improve their retirement security. Plan design features should flow from the principles of behavioral economics. Such features would include automatic enrollment, automatic escalation, and target date funds as the investment default. Of special benefit to women, a guaranteed lifetime income stream would mitigate longevity risk.

Challenges to Women’s Retirement Security

Most women in the United States face challenges that put them at risk of pov-
erty in retirement. Women not only live longer than men but also spend an average of 12 years out of the work force because of family care-giving responsibilities, which results in smaller Social Security benefits and fewer retirement assets. Those risks are especially pronounced for women of color. An overview of those unique challenges follows.

The Wage Gap

It is widely known that women earn 77 cents for every dollar a man earns in the United States. Less understood is the substantial wage gap for women of color. When compared with white men, black women earn 64 cents on the dollar, whereas Latinas earn 53 cents on the dollar (table 1).²

Retirement Plan Access and Participation

Sixty-one percent of workers have access to a pension or retirement savings plan through their employer.³ Forty-six percent of workers actually participate in a plan.⁴ But participation rates for women of color are far lower than the average. Only 26 percent of Latinas and 31 percent of black women participate in an employer-sponsored plan.⁵

Part of the reason for that lower participation rate is that more than one-third of minority women work in sales, clerical roles, or as service workers in industries that are less likely to provide retirement savings plans or pensions. Also, earning less makes it more difficult to put money away. Furthermore, research shows that minority women tend not to set retirement saving as a high priority.⁶

Income in Retirement

Given the many financial challenges women face, it is not surprising that women receive less income than men in retirement (table 2). That fact holds true for every major income source—pensions, savings, Social Security, and earnings.⁷

For example, white men receive more than $10,500 a year in pension income on average. That amount compares with $4,200 for white women, $4,000 for black women, and less than $2,000 for Latinas.⁸

Women rely heavily on Social Security benefits for their retirement income. The majority rely on those benefits for 50 percent or more of their retirement income.⁹ It is the sole source of income for 25 percent of white women, 40 percent of black women, and 45 percent of Latinas.¹⁰

Poverty in Retirement

Social Security lifts 14.8 million people age 65 and older out of poverty.¹¹ Nevertheless, poverty exists among that population. The poverty rate for women is 11 percent, compared with 7.1 percent for men.¹² But the poverty rate for older women of color is far higher. Currently, 21.6 percent of Latinas and 21.3 percent of black women age 65 and older live in poverty.¹³

<table>
<thead>
<tr>
<th>Group</th>
<th>Wage Earned for Every Dollar White Men Earn</th>
</tr>
</thead>
<tbody>
<tr>
<td>All women</td>
<td>77 cents</td>
</tr>
<tr>
<td>White women</td>
<td>78 cents</td>
</tr>
<tr>
<td>Black women</td>
<td>64 cents</td>
</tr>
<tr>
<td>Latinas</td>
<td>53 cents</td>
</tr>
</tbody>
</table>

Table 1. Wage Gap for Women, by Race

<table>
<thead>
<tr>
<th>Group</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>White men</td>
<td>$44,196</td>
</tr>
<tr>
<td>White women</td>
<td>$23,083</td>
</tr>
<tr>
<td>Black women</td>
<td>$20,875</td>
</tr>
<tr>
<td>Latinas</td>
<td>$14,794</td>
</tr>
</tbody>
</table>

Table 2. Average Retirement Income for Ages 65+, by Race and Gender
The Important Role of Communication and Education

Financial education is a critical component of future retirement income security for all Americans, especially for women. Any state effort to broaden retirement plan access and participation must include a comprehensive communication and education strategy.

Many people do not save because they do not think they can afford to. An automatic retirement savings plan faces a backlash if it does not also include an extensive communication campaign designed, in part, to help people understand where their money is going and what it will produce for them. Communication should educate workers about the benefits of retaining their retirement savings for retirement and not using them for other shorter-term purposes.

WISER has worked with tens of thousands of women over the years. Across age, race, and income groups, we have found a woeful lack of understanding of the fundamental risks to which women are exposed. For example,

- Longevity risk is poorly understood and not planned for.
- Women often overlook the effect of future inflation and taxes when they are planning for retirement.
- Many women assume they will work beyond normal retirement age. Yet more than 40 percent of Americans end up retiring earlier than they had planned, usually because of job loss, health issues, or family needs.

Conclusion

Women, especially minorities, face a significant risk of poverty in retirement. A major obstacle is a lack of access to retirement savings plans. Millions of women work all their lives with few or no opportunities to participate in retirement savings plans through their jobs. More than two-thirds of black women and nearly three-fourths of Latinas do not participate in a plan.

State-sponsored retirement savings plans could play a pivotal role in offering moderate and low-income working women, especially minority women, a way to save and to improve their retirement readiness. Other reforms could include bolstering the federal Saver’s Tax Credit, working to eliminate the wage gap, and making it easier to annuitize retirement income. However, any effort must include a comprehensive communication and education strategy. Financial illiteracy is a national challenge that puts millions of Americans at risk. Women especially need access to unbiased education to help them understand the unique risks they face and how to avoid poverty in retirement.

Endnotes


State-Sponsored Retirement Savings Plans: The Potential Effect on Women

4 Ibid.


6 Ibid.


8 Ibid.

9 Ibid.

10 Ibid.

11 Ibid.
