RETIREMENT Plan Trends

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Recent Generations Of Older Women Are Better Prepared For Retirement

In recent years, increased education and more time spent in the workforce have enabled older women to build a stronger financial basis for retirement, according to a study published in the March 2009 issue of the *Social Security Bulletin*, a policy journal of the Social Security Administration (SSA).

The article, "Cohort Changes in the Retirement Resources of Older Women," was written by Howard M. Iams, Lionel Deang, and Irena Dushi of the SSA's Office of Research, Evaluation, and Statistics; and by John W. R. Phillips of the National Institute on Aging and Kristen Robinson of the Altarum Institute. With the goal of investigating the changes in the financial resources available to women as they approach retirement, the authors made a cross-cohort comparison of well-being measures of three cohorts of women aged 55–64 in 1984, 1994, and 2004. The data for the analysis came from the Census Bureau's Current Population Survey (CPS).

The findings indicated that recent cohorts of women are more educated than preceding generations: Just 13% of older women in 2004 had less than a high school education, compared with 32% in 1984; and 50% of older women in 2004 had at least some college education, up from 22% in 1984. Researchers noted that higher levels of education are associated with greater wealth, better health, and longer life.

Marital status, which can greatly affect women's future retirement income, was also shown to have changed over the 20-year period studied, with

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Nearly two-thirds (63%) of women aged 55–64 in 2004 had participated in a pension plan during their working lives, compared with just over half (52%) in 1994.

the proportion of women aged 55–64 who were divorced rising from 9% in 1984 to 18% in 2004. Over the same period, however, the proportion of women who were widowed was found to have declined from 17% in 1984 to 10% in 2004.

Among the most dramatic changes were labor market participation rates among older women. In 1984, 47% of women aged 55–61 and 29% of women aged 62–64 worked. By 2004, 62% of the first group and 39% of the second group were in the labor force. The authors noted that studies of lifetime earning patterns from SSA data show that the lifetime earnings of more recent cohorts of women have increased markedly, reflecting both an increase in earning levels and in overall number of years with earnings.

The analysis also showed that, between 1994 and 2004, the proportion of older women who had ever participated in a pension plan increased sharply, in line with significantly higher labor force participation rates. Nearly two-thirds (63%) of women aged 55–64 in 2004 had participated in a pension plan during their working lives, compared with just over half (52%) in 1994. Categorized according to pension type, the study found that 11% of older women in 2004 had a defined benefit pension only, down from 21% in 1994; 17% in 2004 had a defined contribution plan only, up from 13% in 1994; and 34% in 2004 had both types of plans, up from 16% in 1994.

Despite these generally positive trends, the analysis revealed that the median household income of women did not rise between 1984 and 2004, except for women in the highest quartile, among whom income increased 16%. Between 1994 and 2004, the median net worth of older women, including home equity, rose only among those with college degrees, while it fell among women with lower levels of educational attainment. When home equity was excluded from the analysis, the median net worth of all older women, regardless of educational level, was found to have decreased between 1994 and 2004. Researchers attributed this decline in part to higher rates of divorce.

"Because more women are working today than ever before, they now are better able to contribute to their own pension plans, earn eligibility for Social Security worker benefits (disabled-worker benefits as well as retired-worker benefits), acquire their own health insurance, and build their own net worth," the authors said. "This is a crucial development, especially for the women who are entering retirement without a spouse to share the financial burden."

At the same time, however, the authors cautioned that there are some indicators of increasing risks for women approaching 65. These include an increased reliance on defined contribution plans, rising health care costs, higher life expectancy, decreasing prevalence of marriage and increases in the divorce rate, and the decline in the value of financial holdings. Certain economically vulnerable subgroups will likely remain, including divorced women, high school dropouts, and those with limited attachment to the labor market, the authors concluded.

Few 401(k) Plan Participants Changed Savings Behavior

While market volatility has negatively affected 401(k) plan balances, most plan participants had not significantly altered their contribution behavior or changed their asset allocation by the end of last year, according to a study by the Investment Company Institute (ICI).

Based on data collected from a range of defined contribution recordkeepers covering more than 22 million retirement plan participants, the analysis showed that, during calendar year 2008, only 3.7% of defined contribution plan participants stopped contributing to their accounts, up slightly from 3% between January and October 2008.

In addition, the study found that 14.4% changed the asset allocation of their account balances between January and December 2008, compared with 13.5% between January and October 2008. Meanwhile, 12.4% changed their contribution mix through December, up from 9.1% through October.

The analysis further showed that, over the course of 2008, 3.9% of defined contribution plan participants took some form of withdrawal, with 1.3% taking hardship withdrawals and 15.3% having outstanding loans at the end of the year. Researchers noted that, despite slight increases in these numbers during the final months of 2008, the figures are roughly consistent with the patterns observed during previous years.

"These tough economic times are impacting all forms of retirement savings, including 401(k) accounts," said ICI president and CEO Paul Schott Stevens. "Nonetheless, the latest survey data indicate that 401(k) participant activity through the end of 2008 was in line with historical norms. Working Americans continue to demonstrate their commitment to the 401(k) system."

Worker Advocacy Groups Call For New Approach To Retirement Security

Retirement USA, an initiative aimed at creating a stronger system for retirement saving that provides a universal, secure, and adequate income for American retirees, has been launched by the Service Employees International Union (SEIU), the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, and the Pension Rights Center.

The groups first presented their principles in March and are planning a major conference later this year to coincide with the 35th anniversary of the passage of the Employee Retirement Income Security Act of 1974 (ERISA).

"America's promise of a secure retirement is central to our nation's ideals," said Karen Ferguson, director of the Pension Rights Center. "But for too many Americans, that promise is unfulfilled. While we need to maintain and improve the pension and retirement savings plans that we have today, we need to do more. We need a new system for the future."

The groups outlined the core principles of Retirement USA. These include the proposition that every worker should be covered by a retirement plan in addition to Social Security, that employees should be able to count on a steady lifetime stream of retirement income to supplement Social Security benefits, and that all workers should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

To achieve these goals, the initiative's organizers recommended that the current system be altered in a number of ways. They suggested that retirement planning become a responsibility shared by employers, workers, and the government; under this model, employers and employees would be required to contribute a specified percentage of pay, and the government would agree to subsidize the contributions of lower-income workers.

Under the Retirement USA plan, contributions to the retirement system would be pooled and professionally managed to minimize costs and financial risks. No withdrawals or loans would be permitted before retirement, except in cases of permanent disability, and benefits would be paid out over the lifetime of retirees and of any surviving spouses or partners. Benefits earned at one job would be portable when workers change jobs, and additional voluntary savings would be permitted, with a limited amount of these savings receiving tax-favored status.

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The advocates further recommended that the system be administered by efficient and transparent governmental agencies or private nonprofit institutions that are governed by boards of trustees made up of employer and employee representatives. At the same time, however, oversight of the system would be provided by a single government regulator dedicated exclusively to promoting retirement security.

"We all support strengthening Social Security as the foundation of our retirement system," said former Congresswoman Barbara Kennelly, who is now president and CEO of the National Committee to Preserve Social Security and Medicare. "However, we also recognize that Social Security was never intended to be the sole source of Americans' retirement income. Our nation needs a universal, secure, and adequate system to supplement it."

Americans Are Spending Less And Thinking More About Retirement

In response to the economic downturn, Americans are cutting back on spending and are saving more for the future, with many people focusing more of their attention than in the past on retirement saving and planning, survey results published by AARP suggest.

The survey of a nationally representative sample of 1,035 respondents 25 years of age or older conducted in February and March 2009 showed that, over the previous 12 months, 71% of adults had cut back on spending, and 28% had started saving more.

When the respondents who are increasing their saving or reducing their spending were asked about their motivations for changing their behavior, 86% said they want to have more money available for emergencies, while 73% said they are saving more money for retirement. The findings showed that, overall, younger adults (ages 25–49) were more likely than older adults to cite saving for retirement as a major or minor reason for increasing their saving, but older people were more likely than younger people to name planning for retirement as a major motivator for spending less and saving more.

Among all the adults surveyed, 51% are currently saving for retirement, including 57% of younger respondents and 44% of people aged 50 and above. Of those who said they are saving for retirement, 67% reported contributing to a 401(k) plan, and 38% said they are saving in an IRA. The findings showed that younger adults are more likely to contribute to a 401(k) plan, while older adults more frequently save for retirement through an IRA.

The survey also asked respondents who are currently saving for retirement whether they have altered their savings behavior over the last 12 months in reaction to the financial downturn. Nearly one-third (30%) said they are putting less money into retirement accounts, and 29% said they are moving retirement savings into less risky investments. Moreover, the survey found that one-quarter (25%) have started contributing to a retirement account over the past year, while one-fifth (20%) have stopped saving for retirement. Just 13% of all respondents have prematurely withdrawn money from their retirement savings, but the rate of early withdrawals was found to be slightly higher (17%) among respondents aged 50 and above.

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