

# JUST THE FACTS

## *On Retirement Issues*

APRIL 2004, JUST THE FACTS 10

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

## WHY ARE SO MANY OLDER WOMEN POOR?

BY ALICIA H. MUNNELL\*

### Introduction

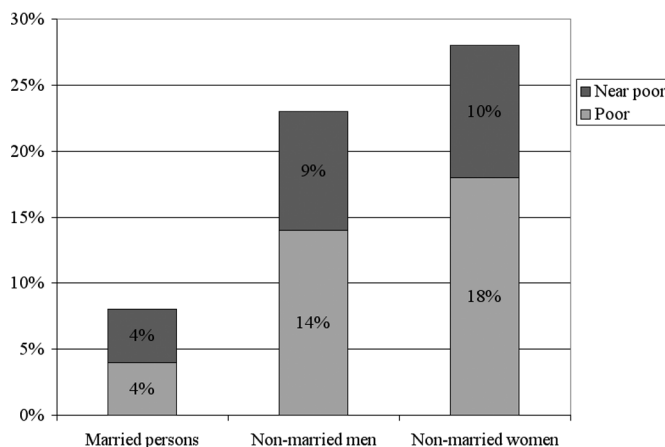
The economic status of older Americans has improved dramatically since 1960. Today, the poverty rate for those 65 and over is about the same as for those aged 18-64. But substantial pockets of poverty remain, especially among older non-married women. This brief will focus on why older women are particularly vulnerable. It also reviews the outlook for the future, when the graying of the population will place increasing pressure on resources available for the elderly.

### Non-Married Women Are the Most Vulnerable Group

Of all the factors associated with poverty in old age, the most critical is to be a woman without a husband. As shown in Figure 1, 18 percent of non-married women fell below the poverty line in 2000. Another 10 percent of older single women were classified as “near poor,” which means that they had an income of less than 125 percent of the poverty threshold. Thus, 28 percent of single older women are either poor or near poor — a clearly vulnerable group as the nation grays.

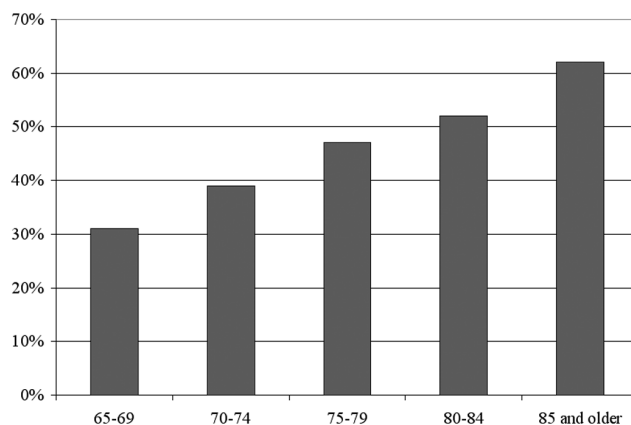
Not only do older single women have high levels of poverty, but they are a significant portion of the elderly population. And the share of non-married women in the elderly population increases with age. As shown in Figure 2, non-married women in 2000 accounted for about 30 percent of all households aged 65-69 and more than 60 percent of households aged 85 and over.

FIGURE 1: PERCENT POOR AND NEAR POOR BY MARITAL STATUS OF POPULATION: AGED 65 AND OVER, 2001



Source: U.S. Social Security Administration (2002a).

FIGURE 2: NON-MARRIED WOMEN AS A PERCENT OF TOTAL HOUSEHOLDS, AGED 65 AND OVER

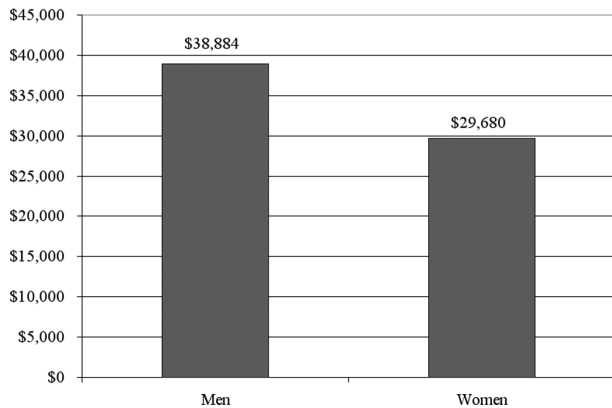


Source: U.S. Social Security Administration (2002a).

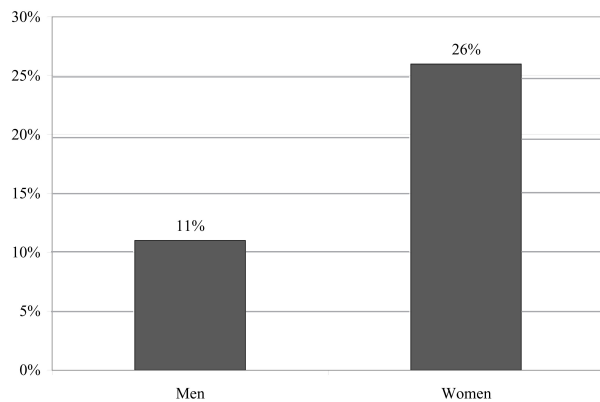
\* Alicia H. Munnell is the director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. The Center gratefully acknowledges The Atlantic Philanthropies for providing support for this publication.

**FIGURE 3: LIFETIME EARNINGS FOR MEN AND WOMEN**

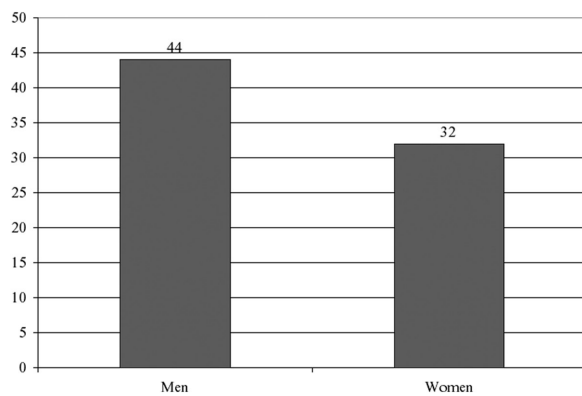
*Median Earnings of Full-Time Workers, 2002*



*Percent of U.S. Workers Employed Part-Time, 2003*



*Median Years Worked of Workers Retiring in 2000*



Source: U.S. Bureau of the Census (2003, 2004) and U.S. Social Security Administration (2003b).

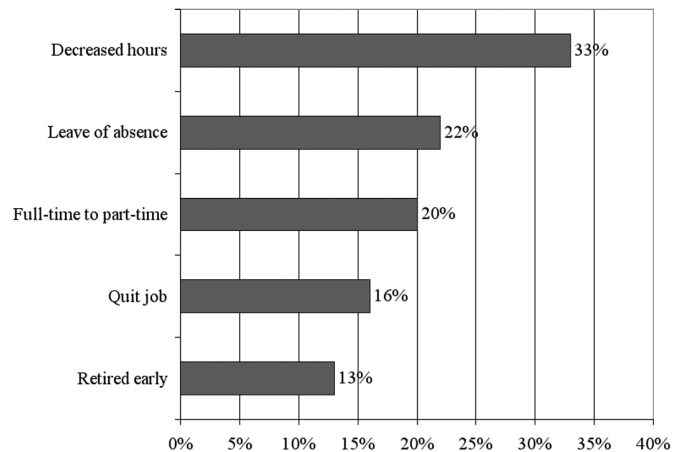
Why do so many women end up poor? The answer is twofold. First, the retirement income system in the United States is based on earnings, and women have low earnings for a variety of reasons discussed below. Second, women live longer than men, and the retirement income of married women drops significantly when the husband dies.

**Women Have Low Lifetime Earnings**

Women have low lifetime earnings compared to men for three reasons, as shown in Figure 3. First, they have lower wages. Even women who are employed full-time earn about 25 percent less than men. Second, they are more likely to work part-time, which reduces their hourly wage as well as their hours worked. About one quarter of all women work part-time, compared to about 10 percent of men, and are most likely to work part-time when they have young children at home. Finally, women spend fewer years in the labor force. The typical woman is in the work force 32 years, compared to 44 years for the typical man.

Women’s employment and earnings patterns are largely shaped by their role as the family caregiver. For example, Metropolitan Life interviewed a sample of women to see how caregiving affected their work schedule and found that a large number had taken actions that reduced their earnings. One-third had decreased their hours to care for a child or parent (see Figure 4). Nearly as many had either quit their job or retired early. And twenty percent had moved from full to part-time work in order to provide care. Clearly, caregiving has a profound effect on the work schedule of many women.

**FIGURE 4: EFFECTS OF CAREGIVING ON WORK SCHEDULE**

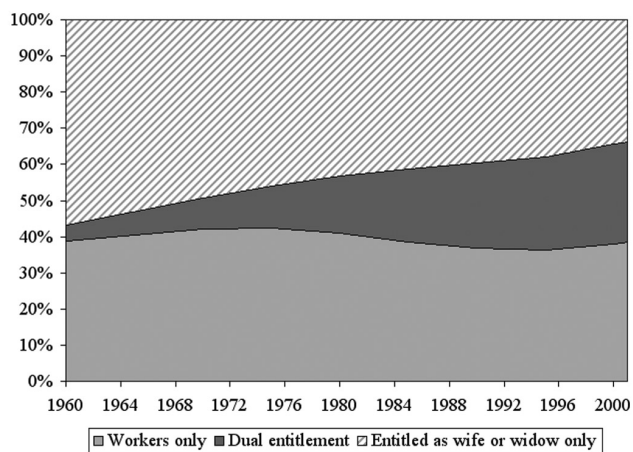


Source: Metropolitan Life Insurance Company (1999).

## Low Lifetime Earnings Produce Low Benefits

The combination of earning less than men when working full-time, working part-time, and participating in the labor force for fewer years over their lifetimes means that women end up at retirement with quite low lifetime earnings. As a result, most women continue to depend at least in part on their husband's earnings for their Social Security benefit.<sup>1</sup> This pattern is evident in Figure 5, which reports the basis on which women are entitled to Social Security benefits from 1960 to the present. The top area shows the percent of women who receive only a spousal or survivor benefit and are not entitled to any benefit based on their own earnings. This group has clearly declined over time. The middle portion of the figure represents the share of women who receive both a spousal benefit and some benefit based on their own earnings. That is, they have "dual entitlement." The increased labor force participation of women over the last 30 years has raised the proportion of women dually entitled. The bottom layer consists of women who receive benefits based solely on their own earnings record. In 2001, only 38 percent of women fell into this category; the remaining 62 percent were entitled, in whole or in part, based on their husband's earnings.

FIGURE 5: WOMEN AGE 62 AND OLDER, BY BASIS OF ENTITLEMENT TO SOCIAL SECURITY, 1960-2001



Source: U.S. Social Security Administration (2002b).

The other major source of retirement income is employer-sponsored pension plans. Because women have less attachment to the labor force and earn less, they are less likely to end up with a pension. When they do, that pension benefit is likely to be smaller than a man's. As shown in Figure 6, only 32 percent of retired women have a pension compared to 55 percent of men, and the average benefit is less than half that for men.

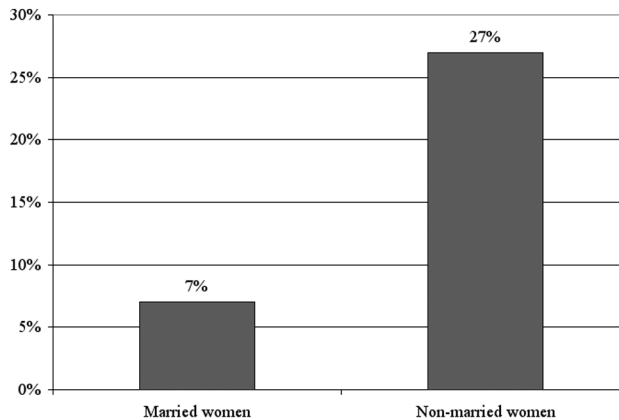
FIGURE 6: PENSION BENEFITS FOR MEN AND WOMEN



Source: U.S. Department of Labor (1996).

Married women, who share in their husband's benefits, fare much better than single women. As shown in Figure 7, only 7 percent of married women aged 65-69 are either poor or near poor. Among single women, who often have little income other than Social Security, 27 percent of the 65-69 age group are either poor or near poor.

FIGURE 7: PERCENT OF WOMEN POOR OR NEAR POOR, AGED 65-69



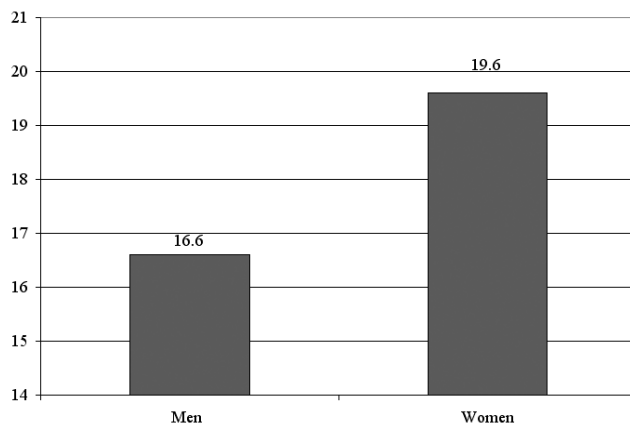
Source: U.S. Social Security Administration (2002a).

<sup>1</sup> Regardless of work history, the wife (or husband) of a worker covered by Social Security is eligible for a spousal benefit of 50 percent of the worker's benefit. If the spouse is entitled to a benefit based on her own work history, she will receive whichever

benefit is larger. If her own benefit is less than the spousal benefit, she is considered dually entitled and will receive a "supplement" up to the spousal benefit level (Steuerle and Bakija 1994).

If women could stay married throughout retirement, they might do alright. But, women live longer than men — a life expectancy at 65 of 19.6 years compared to 16.6 for men (see Figure 8). Thus, most women end up widowed. When their husband dies, two things happen to their retirement income. First, the couple's Social Security benefit is cut by between one third and one half. Second, the couple's private pension benefit either disappears completely or is reduced. One study reported that private pension payments ended when the husband died in 41 percent of the cases; these couples had not selected a joint-and-survivor annuity, which would provide continued benefit payments to a surviving spouse. In the other 59 percent of cases, the payment was reduced by an average of one third.<sup>2</sup>

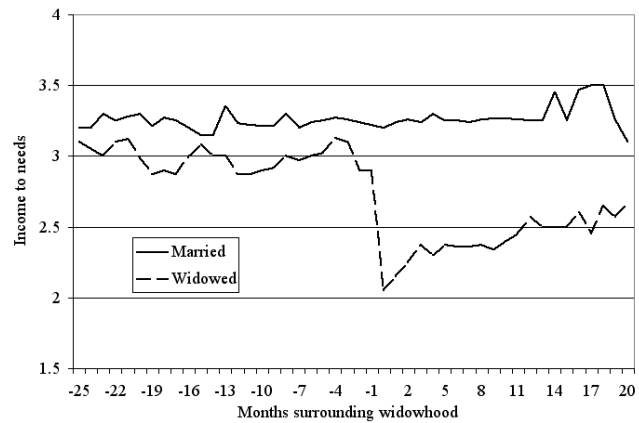
FIGURE 8: LIFE EXPECTANCY AT AGE 65



Source: U.S. Social Security Administration (2003c).

With the reduction in Social Security benefits and the reduction or cessation of employer-sponsored pension benefits, women suffer a severe decline in their income when their husband dies. Figure 9 compares the income situation of two groups of couples — one where the couple remains intact, the other where the husband dies. Income is measured in terms of the family's income relative to the poverty line. The couples in which the husband survives maintain an income-to-poverty ratio in excess of three. Among couples where the husband dies, the income-to-poverty ratio falls to two and then recovers somewhat.

FIGURE 9: INCOME TO NEEDS RATIO FOR MONTHS SURROUNDING WIDOWHOOD\*

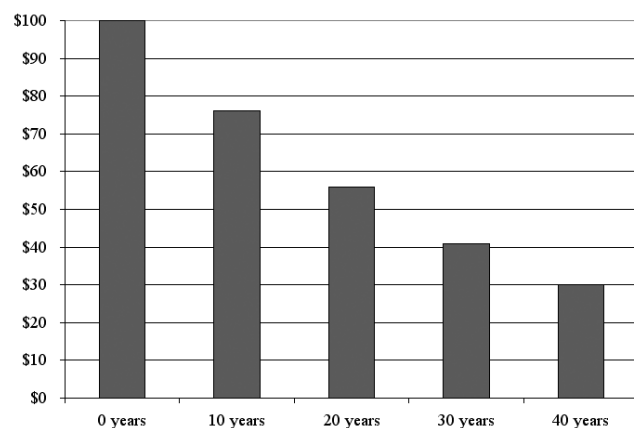


Source: Holden and Zick (1998).

\*Note: 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.

The other factor that hurts women is inflation. Even moderate levels of inflation can seriously erode the purchasing power of \$100. For example, with an inflation rate of 3 percent, the value of \$100 drops to \$76 after 10 years, and \$56 after 20 years — the average life expectancy for women at age 65 (see Figure 10). Social Security benefits are indexed for inflation, but employer-sponsored pension benefits generally are not. As a result, even if some of their husband's pension benefit continues after his death, the value of that benefit declines sharply over time.

FIGURE 10: VALUE OF \$100 WITH 3 PERCENT INFLATION AFTER SPECIFIED NUMBER OF YEARS



Source: Author's calculations.

<sup>2</sup> Holden and Zick (1998).

The erosion of the purchasing value of pension benefits as well as health and other problems contribute to the increase in poverty rates at older ages. Fully one-third of non-married women aged 85 and over is poor or near poor (see Table 1). And, as noted earlier, 62 percent of households aged 85 and over consist of non-married women.

TABLE 1: PERCENT OF NON-MARRIED WOMEN POOR OR NEAR POOR BY AGE, 2000

Age	Percent poor or near poor
65-69	27
70-74	29
75-79	30
80-84	27
85 and over	33

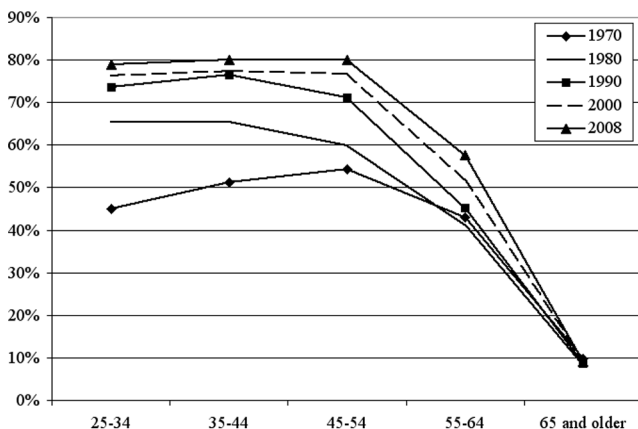
Source: U.S. Social Security Administration (2002a).

### The Outlook for the Future

What about the future? Will women still be at such risk in retirement with the graying of the population in the 21st century? Changes are occurring both in women's lives and in the programs that support them.

In terms of women's lives, more women are working. Figure 11 shows the labor force participation rates for 1970, 1980, 1990, and 2000 as well as a projection for 2008. Although the rate of change has slowed, the country has moved from a situation where about half of women aged 25-54 were in the labor market to one where 80 percent participate. More employment means that women will have higher future earnings, and perhaps more saving and pension benefits.

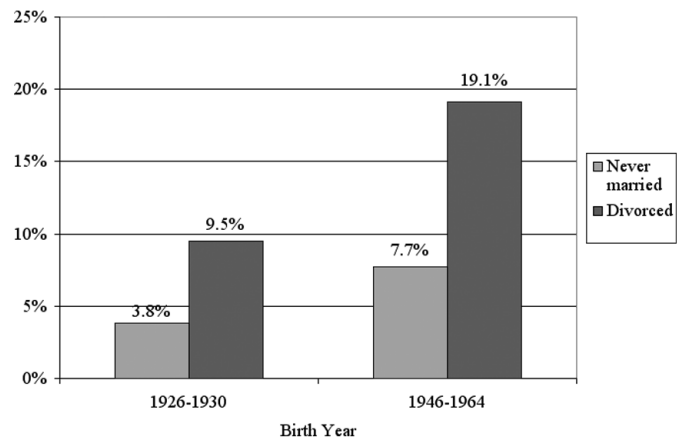
FIGURE 11: LABOR FORCE PARTICIPATION OF WOMEN, 1970-2008



Source: U.S. Bureau of the Census (1996) and (2002).

While increased earnings will help women's retirement security in the future, an increase in divorced and never-married women will hurt. As shown in Figure 12, the divorce rate for the baby boom generation — those born between 1946 and 1964 — is about double that of the previous generation. Never-married women are also twice as prevalent among baby boomers as in the earlier generation. Both these groups have very high poverty rates. So their increase as a proportion of the population worsens the outlook for future retirees.

FIGURE 12: PERCENT OF AGE 62 POPULATION OF NEVER-MARRIED OR DIVORCED WOMEN



Source: Butrica, Cohen, and Iams (1999).

In terms of retirement income programs, developments in Social Security and private pensions do not augur well for women. First, Social Security benefits as a share of workers' earnings are expected to decline in the future. These "replacement rates" are projected to drop due to the rise in the full-benefits retirement age and the larger share of benefits that will be subject to income tax over the next few decades. In addition, Medicare premiums — which are subtracted from Social Security checks — are expected to rise rapidly. And, finally, Social Security benefits may be further reduced to solve a long-term funding shortfall.<sup>3</sup>

The decline in Social Security will hurt women because various aspects of the program are especially beneficial. Social Security provides higher levels of replacement income for low earners than high earners through its progressive benefit formula, and women on average are low earners. To the extent that Social Security is reduced, they lose this advantage. Similarly, the cutback in Social Security will reduce spousal benefits for married women who spend considerable time out of the labor force. And, as

<sup>3</sup> Munnell (2003).

discussed above, only Social Security provides full inflation indexing. This is particularly valuable for people who spend a long time in retirement, and women live longer than men. Thus, the decline in Social Security will lead to more poverty and near poverty among future women retirees.

The other major development on the program side is the shift from defined benefit pensions to 401(k)-type plans and, within defined benefit plans, from traditional to cash balance plans. These individual account arrangements are clearly beneficial for mobile workers such as women. But they pay benefits at retirement as a lump sum rather than as an annuity. Thus, married women will not have the joint and survivor provision as the default option on their husband's pensions. Lump-sum payments raise the prospect of the couple consuming a good deal of their assets while the husband is alive, leaving little to support the wife after he dies. Of course, those receiving lump-sum payments could choose to purchase annuities on their own.<sup>4</sup> However, in practice, few do. In short, the new plans simply do not provide the same kind of protection for widows as the traditional defined benefit plans.

## Conclusion

In summary, many women are poor in old age because the retirement system is based on earnings and women have low earnings. Married women can depend on their husband's benefits, but these benefits are cut when the husband dies. One factor that will help in the future is that more women are working than in the past, which improves their retirement income prospects. However, the increase in divorced and never-married women undermines retirement security. Social Security cuts and the shift to 401(k) plans further increase the difficulty women face in securing an adequate retirement income.

Given these developments, women could enhance their situation by saving more during their working years. But most people do not save much on their own. As women generally have low earnings, they could find it particularly difficult to boost their saving. Women covered by employer plans should benefit from the shift to 401(k)s during the accumulation phase. But the use of lump-sum payouts undermines the retirement income security these plans provide to long-lived women.

Another option for women is to postpone retirement by continuing to work for a few more years. Continued employment provides additional earnings and puts off the date when people start drawing down their 401(k) balances and other assets. But for continued employment to be an option, people have to want to work and employers have to be willing to hire older workers.

Women, and single women in particular, are currently the major population of older Americans suffering inordinately high rates of poverty and near poverty. Without significant changes in our retirement income system, or in our work and saving behavior, the economic position of elderly women could become even more precarious in the future.

---

<sup>4</sup> One factor worth noting is that annuity prices for individuals differ by gender; women pay more than men for an equivalent monthly benefit because of their longer average life expectancy. In contrast to private annuity markets, traditional defined benefit

pension plans are required by law to pay men and women equal monthly benefits, assuming equal work and earnings' histories (Campbell and Munnell 2002).

## References

- Butrica, Barbara, Lee Cohen, and Howard Iams. 1999. *Introduction and Findings from the MINT Project*. Presented at the First Annual Joint Conference for the Retirement Research Consortium, Washington, D.C. (May 20-21).
- Campbell, Sheila and Alicia H. Munnell. 2002. "Sex and 401(k) Plans." *Just the Facts on Retirement Issues* No. 4 (May). Chestnut Hill, MA: Center for Retirement Research at Boston College.
- Holden, Karen C. 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 J. Graetz, and Alicia H. Munnell. Brookings Institution Press and the National Academy of Social Insurance: 165-167.
- Metropolitan Life Insurance Company. 1999. *The MetLife Juggling Act Study: Balancing Caregiving with Work and the Costs Involved* (November).
- Munnell, Alicia H. 2003. "The Declining Role of Social Security." *Just the Facts on Retirement Issues* No. 6 (February). Chestnut Hill, MA: Center for Retirement Research at Boston College.
- Steuerle, C. Eugene and Jon M. Bakija. 1994. *Retooling Social Security for the 21st Century*. Urban Institute Press.
- U.S. Bureau of the Census. 1996. "Section 13: Labor Force, Employment, and Earnings." *Statistical Abstract of the United States: 1995*. [Available at: <http://www.census.gov/prod/1/gen/95statab/labor.pdf>].
- U.S. Bureau of the Census. 2002. "Section 12: Labor Force, Employment, and Earnings." *Statistical Abstract of the United States: 2001*. [Available at: <http://www.census.gov/prod/2002pubs/01statab/labor.pdf>].
- U.S. Bureau of the Census. 2003. "Income in the United States: 2002." *U.S. Census Bureau Current Population Reports* P60-221 (September). Washington, D.C.: U.S. Government Printing Office. [Available at: <http://www.census.gov/prod/2003pubs/p60-221.pdf>].
- U.S. Bureau of the Census. 2004. "Employment and Earnings." *Current Population Survey*. [Available at: <http://www.bls.gov/cps/cpsaat8.pdf>].
- U.S. Department of Labor. 1996. *Retirement Benefits of American Workers, New Findings from the September 1994 Current Population Survey*.
- U.S. Social Security Administration. 2002a. *Income of the Aged Chartbook, 2000*. Washington, D.C.: U.S. Government Printing Office. [Available at: [http://www.ssa.gov/policy/docs/chartbooks/income\\_aged/2000/iac00.pdf](http://www.ssa.gov/policy/docs/chartbooks/income_aged/2000/iac00.pdf)].
- U.S. Social Security Administration. 2002b. *Social Security Bulletin, Annual Statistical Supplement*. Washington, D.C.: U.S. Government Printing Office. [Available at: <http://www.ssa.gov/policy/docs/statcomps/supplement/2002/supp02.pdf>].
- U.S. Social Security Administration. 2003a. *Income of the Aged Chartbook, 2001*. Washington, D.C.: U.S. Government Printing Office. [Available at: [http://www.ssa.gov/policy/docs/chartbooks/income\\_aged/2001/iac01.pdf](http://www.ssa.gov/policy/docs/chartbooks/income_aged/2001/iac01.pdf)].
- U.S. Social Security Administration. 2003b. "Social Security Is Important to Women." *Social Security Fact Sheet* (July). [Available at: <http://www.ssa.gov/organizations/womenfactsheet.htm>].
- U.S. Social Security Administration. 2003c. *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Washington, D.C.: U.S. Government Printing Office. [Available at: <http://www.ssa.gov/OACT/TR/TR03/tr03.pdf>].

*All of our publications are available on our website:*

**[www.bc.edu/crr](http://www.bc.edu/crr)**

© 2004, by Trustees of Boston College, Center for Retirement Research. All rights reserved. The research reported herein was performed pursuant to a grant from The Atlantic Philanthropies. The opinions and conclusions expressed are solely those of the author and should not be construed as representing the opinions or policy of The Atlantic Philanthropies or the Center for Retirement Research at Boston College.

**CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE**

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808  
phone 617.552.1762 fax 617.552.1750 [crr@bc.edu](mailto:crr@bc.edu) [www.bc.edu/crr](http://www.bc.edu/crr)