Prepared Statement
Women's Institute for a Secure Retirement

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Committee on Financial Services

Hearing on
"Retirement Security: What Seniors Need to Know About Protecting Their Futures"
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Introduction

Good Morning, I am Cindy Hounsell, Executive Director of the Women's Institute for a Secure Retirement (WISER), a non-profit organization whose primary mission is financial education. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure adequate retirement income through its research, training workshops, education materials and outreach.

We commend the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises for examining the special challenges and difficulties faced by middle-aged and older Americans in preparing for and managing their retirement years. This testimony begins by focusing on why the retirement needs of women deserve special attention and outlines the systemic problems that prevent women from securing adequate income.

The second part of the testimony discusses long-term care insurance and annuities as two important insurance products that can help meet some of the needs of women who are living longer and more costly lives in retirement.

The last part of the testimony describes the lack of consumer understanding of investment products as well as the wide range of financial choices now available. We also provide an overview of how WISER's POWERC*enter* clearinghouse and retirement education program works.

The POWERC*enter*, Program on Women's Education for Retirement, is funded through a grant and cooperative partnership with the Administration on Aging. The program is focused on the urgent need for financial education to improve women's ability to receive the maximum amount from Social Security, 401(k) plans, savings accounts, investments and the various types of insurance that will make certain that their income will last over a lifetime. The program helps women develop retirement strategies to overcome the challenges to their economic security – financial decisions made over a lifetime have a big impact on how you will live during retirement. Women need information to make the best financial decisions because they can least afford to make mistakes with their money.

<u>Background</u>

WISER's report, ***Your Future Paycheck*** is the first report of its kind to address all the factors preventing women from a secure retirement. Findings from ***Your Future Paycheck*** include:

- The median salary for full time working women was $29,215, compared to $38,275 for men.

- In 2001, the median personal income for women age 65 years and older was $11,313. For men in the same age group, it was $19,688.

- Older women today are twice as likely as men to be poor.

- 63% of single (widowed, divorced, never married) older women have retirement incomes under $15,000.

- Only one in five older women receive income from private pensions.

- Women lose $659,139 in earnings as a result of caregiving during their lifetime.

- The population over age 85 is expected to double over the next 30 years, giving the nation as a whole the demographic profile of the state of Florida.

<u>I. Systemic Problems that Increase Poverty among Older Women</u>

Women face a host of obstacles that jeopardize their economic security. Occupational segregation concentrates women in service sector, part-time, non-union, and small firm jobs, where employment benefits are less common, less generous, and often non-existent. While working women have increased their participation in the workforce they are still struggling with the issue of pay – two-thirds of today's full-time working women earn less than $30,000.

Compounding these problems is the traditional employer retirement system that has undergone a dramatic transformation from employer paid pension plans to employee-paid and investment directed savings plans such as 401(k)s. For women, not only is there the difficulty of contributing to their 401(k) plans, there is also the problem of making their money last for a lifetime… a lifetime that is on average four years longer than for men.

But the problem is not just low pay and poor benefits. Those factors are coupled with marginal work, entering and exiting the workforce as they leave jobs to care for their families, and a general lack of knowledge about money management that is also shared by much of the American public.

Caregiving

Poverty among older women is directly related to child-care and family responsibilities and to earning power and employee benefits. Women continue to serve as their families' primary care givers for both children and older parents, and as a result, are more likely to work part-time in jobs without benefits or take time out of the workforce. Caregiving responsibilities cause women to spend about 9 years out of the job market. Fewer years at work means that they are less likely to be eligible for employer pension benefits and, combined with lower pay, means smaller Social Security benefits and fewer savings. For women with income from private pensions or annuities, their median benefit is $4,164, compared to $7,768 for men. The current generation of elderly women has little in the way of savings and investments for their retirement. In fact, half of all unmarried older women have less than $1,278 a year in asset income, or about $106 a month.

Marital Status

Older women are much more likely to live alone than older men. In 2000, only 40 percent of older women were married, compared to 74 percent of older men. Older women living alone are much more likely to be poor and it is even worse for older minority women: the poverty rate for single black women over age 65 was 43 percent and for single Hispanic women 49 percent, nearly twice that of white women. The median income for elderly Hispanic women is below the poverty threshold – in 2001, the poverty threshold for an individual age 65 and older was $8,494.

Impact of Divorce

Women's economic security is also threatened by divorce, separation, or death of a spouse. Nearly 30 percent of all divorced older women and nearly 60 percent of all separated older women are minorities. Today, nearly half of all marriages end in divorce, which in turn leads to a significant decline in a women's standard of living, as well as missing out on the future retirement benefits that dissolve through divorce or the death of a spouse.

Earnings beyond age 65

We frequently hear from women who are convinced that they will never be able to stop working and truly be able to retire, despite a lifetime of hard work both in and out of the home. Their concerns are backed by a trend among experts who have stopped talking about the 3-legged stool to describe retirement income, recognizing that pensions, Social Security and individual savings and investments will not provide enough income for the average person entering retirement. Many experts now routinely refer to a four-or five-legged stool, that include earnings from employment, along with SSI a poverty program. However, it is important to remember that working beyond age 65 out of choice is different from desperately applying for jobs at age 75 or 80 in order to pay for medications and food.

II. Long-term Care Insurance and Immediate Annuities Can Help Meet Some of the Needs of Older Women

Women live longer than men and, if married, tend to outlive their husbands. As a result, women face a greater risk of requiring long-term care, either in their own homes or in nursing homes and other facilities. As caregivers to their families, many women know from first-hand experience that long-term care expenses can be catastrophic.

Private Long-Term Care Insurance

Long-term care becomes an issue of particular concern to women at or near retirement age. Older women realize that they are more likely than men to live alone, without a spouse or other family member to provide home care. As a result, women are more likely to need institutional care at some point in their lives. Also, women often end up providing care to family members and using their own assets to pay for this care. It is especially important for women to plan early so the high cost of long term-care services does not threaten their financial security.

Over the next thirty years, as baby boomers reach retirement, America's elderly population is expected to double. The number of Americans who need nursing home care or assistance with daily living will skyrocket and be accompanied by an equally forceful rise in the cost per resident. Since 1990, the cost per stay has risen at an annual rate of three percent above the overall rate of inflation. Estimates of this trend predict the cost of a nursing home stay will increase from $55,000 per year today to $190,000 per year (in today's dollars) by 2030. These costs are too high for most individuals and their families to bear.

We have found that there is a great deal of confusion and misunderstanding about Medicaid and Medicare and whether long-term care is paid for by either program. While Medicaid requires families to deplete assets in order to receive nursing home or home health care, Medicare provides only short-term, skilled nursing home care that follows a hospitalization and coverage of care at home is limited to those who need skilled nursing care and rehabilitative therapy.

Take the story of Alice Turner.

Alice was meticulous about her financial affairs, but she neglected to inform her daughters who lived at the other end of the country that she had actually purchased a Long-Term Care insurance policy.

When Alice became seriously ill, a long distance nightmare began–largely, because Alice's daughters were not aware that the insurance she had paid for would have covered a longer stay in the nursing home. Since Medicare would only pay for 20 days in a nursing home, Alice's care began to look more like medical roulette than a medical recovery plan.

First, there would be a medical crisis. Alice would go into the hospital's Intensive Care Unit, get discharged to a nursing home for 20 days and then sent home. The next medical crisis would be handled in the same way - based on what looked like her limited Medicare coverage, instead of what she needed.

Alice's daughters found her policy after she died but if they had known...they could have avoided this agony and Alice would have gotten the medical care she needed without interruption.

We know that there is a great need to educate younger and middle aged people about the issues surrounding long-term care insurance. Two major reasons for this are that many people think that it is too expensive and that the time to buy the insurance is at retirement age. We have found that many middle-aged people fail to insure because they do not realize that the cost of a long-term insurance policy is tied to the age of purchase. People who purchase policies at younger ages pose lower risks to insurance companies, and therefore pay lower premiums; premiums purchased before age 65 generally are much lower than those purchased after age 65.

As people approach retirement age, they begin to educate themselves about the value of long-term care insurance. Many of the stories that we hear about are from people who are looking to purchase *after* they retire when the cost is the highest, but by then they are fearful of the possibility of catastrophic costs.

Some employer plans offer adult children the opportunity to sign up their parents for long-term care insurance. If families were educated about the availability of various policy provisions such as in-home care as well as nursing home care; services for paid family caregivers; services at assisted living facilities; as well as medical equipment and even home modification, they would be capable of taking the needed steps to talk about these issues resulting in much better financial planning decisions for both the adult children and their parents.

Immediate Annuities

Another consequence of living longer is that women have greater concerns about outliving their income; even if they have saved a reasonable amount in personal assets, it can be difficult to stretch that income throughout their retirement years.

Many older people are living longer than ever, and that trend is expected to continue. As a result, retirees are spending more years living off of their retirement income. Yet, most financial education focuses on getting people to save and invest, while there is little information available on what to do when you reach retirement age to make sure the money lasts for as long as you need it.

WISER has written a booklet with the Actuarial Foundation, *Making Your Money Last For a Lifetime: Why You Need to Know About Annuities* because many people are unprepared to handle large sums of money whether from an inheritance or moving a large sum from a 401(k) when leaving a job. The question is: after you have built up your assets how do you make sure that you don't outlive them?

In the old days, before the growth of 401(k) plans, many employers paid you a pension that lasted a lifetime. The employer paid your benefit no matter what happened to the stock market. Today, while some people are fortunate to still have those types of old-fashioned pensions, many people must make their own key decisions and decide how to manage their own funds and how to cope with the three big ***what ifs*** of retirement.

- What if I live too long?
- What if my investments lose money?
- What if inflation hurts my investments?

Obviously, there's no magic formula and no right answer. We all do the best we can do with the information we have and we don't know what the future will hold. But let's say you have built up a retirement fund of $250,000 by the time you are age 65. Few of those who are retiring realize that the money may have to last for perhaps 20 or 30 years after we stop working.

There are two ways to make your fund last for the rest of your life:

- Make withdrawals that you estimate will last for the rest of your life – and keep whatever money you haven't spent in an investment.

- Take some of your money and buy an immediate annuity – which will provide you with guaranteed income payments for the rest of your life.

The story below explains how Ron Gebhardtsbauer, an actuary, helped his parents plan for their retirement. He agreed to tell us how and why he convinced his mother to buy an annuity. After putting her money into an immediate annuity, she is now receiving a larger amount each year, and has the piece of mind of knowing it will continue for as long as she lives.

"Mom, take care of *yourself*, don't leave me any money."

-- by Ron Gebhardtsbauer, Senior Pension Fellow of the American Academy of Actuaries

My mom is 77 and she had all of her money in an Individual Retirement Account at the Savings & Loan. Once she turned 70½ , she had to start taking a minimum monthly amount required by law. (Basically, she had to take out enough so that, she would empty the account over her lifetime. This amount changes each year as her life expectancy changes, and the amount of money is less.)

I told her she could get an annuity from an insurance company, which will always pay more.
She asked, "How can an insurance company beat the Savings & Loan? Insurers generally have high expenses." I agreed with her, but said that the insurance company can still win –

it focuses all of mom's money on her, not on me as her heir, because, fortunately, I don't need it. Under her current payment system, taking out the minimum required amount each year, she was taking out close to $3,000 a year, and this annual amount would soon begin to decrease. If she lived to 95, she would get only about $1,500 a year, and about $500 a year at 100.

However, if the insurance company had the money, about $33,000, they would pay her about $4,000 each year. They would pay her that amount each year, even if she lived to 100 or beyond. It took awhile, but my mom finally bought the annuity, and she's glad she did. Her income is higher now, and she doesn't have to worry about it running out, even if she lives a long time.

Immediate Annuities are the best way to be certain you will get payments for the rest of your life, no matter how long you live. There are options for people who are concerned that they will die early – they can choose to purchase an annuity that is guaranteed to pay benefits for at least five or ten years.

We sometimes hear from people who say that taking a lump-sum is the best way to have control over their money. Yet, too often, the first thing they do after taking the lump sum is to look for someone else to manage it for them, ultimately still losing control of their investments.

III. The Importance of Financial Education

All Americans are being asked to assume new responsibilities in making more complex retirement savings decisions. But retirement issues are difficult issues to understand and the conflicting financial advice, among the millions of pages available on the internet, seems to make it more confusing for both men and women. While there is a wide range of financial products, you cannot make good use of these products unless you know what they are and how they work. These financial decisions will affect what your life is like for the next twenty years.

People need better guidance about determining when to retire, how much spendable income will be needed, where the money will come from, and how to make it last. We have noticed that many people make the mistake of retiring early – reducing their pension and Social Security benefits without having considered the future costs of medical insurance and prescription drugs.

The importance of financial education has been hammered home for the past decade as the trend away from paid pensions shifted to employee contributed 401(k) plans alerted individuals and families to the need for increased savings for their later years. Several government agencies instituted financial campaigns in the 1990's. To show how serious this issue is for the Bush Administration, the President established an Office of Financial Education at the U.S. Department of the Treasury. Secretary Snow has made financial education a focus and will develop a long-term multi-faceted approach to expanding the nation's money management skills

WISER and its collaborative partners have established a clearinghouse on retirement education, the POWER*Center* (Program on Women's Education for Retirement) which provides average women with a place to turn to for basic financial education. The POWER*Center* began as a cooperative project funded by the U.S. Administration on Aging in 1998.

The program includes many partners: employers, women's organizations and community based groups. Government agencies have included the Department of Agriculture's Cooperative Extension Service, the Department of Labor's Pensions Welfare Benefits Administration and the Women's Bureau, and the Social Security Administration.

The POWER*Center* has six overarching program goals:

1. Ensuring that the educational material and program reaches women in their communities and places of worship as well as their jobs;
2. Encouraging women to take an active role in planning for their future;
3. Reaching the maximum number of average and lower income women with information;
4. Creating an awareness of retirement basics, pensions savings plans, and the Social Security program, to help motivate women to plan early for their economic security by stretching and managing their resources and increasing their retirement income;
5. Preserving retirement income: helping older women protect their income by educating them about the types of insurance and insurance related investment products such as immediate annuities and long-term care insurance that can help them to make their money last for a lifetime; as well as avoiding the multiple pitfalls of consumer fraud, financial scams, and predatory scams; and
6. Helping women in crisis situations such as caregiving for elderly parents and spouses and with the financial issues resulting from death and divorce.

Interactive workshops

WISER has developed and tested a program with training techniques that hit home to diverse audiences. *Your Future Paycheck* provides practical knowledge by interweaving substantive information with case histories of women who have worked and cared for their families their entire lives. The stories spark interest in the substantive issues from participants. Participants identify with the situational problems and remember the solutions.

WISER urges workshop participants to make sure they have a basic financial plan and teaches w them how to take manageable steps to retain more of their earnings. We also acknowledge the fact that many of the participants are behind the eight ball when it comes to saving for the future. We emphasize taking small steps to avoid being overwhelmed. We have found that addressing these everyday issues resonate with participants:

- Gaps in employment, lower wages, and fewer benefits: Practical suggestions for women with children who must prepare for gaps in employment, lower wages, and fewer benefits.

- Ways to maximize retirement benefits while working: access to employer savings plans and techniques for saving on one's own.
- Credit counseling and common money mistakes: Credit problems, credit repair, debt reduction.
- First Time Home Ownership programs and Individual Development Accounts.
- Types of insurance and immediate annuities – understanding the terms.
- Social Security as a retirement program and as a program that provides survivor benefits to children and disability benefits.
- Predatory lending scams.

The major challenge facing the Committee today is to make sure that working Americans realize what steps they will need to take to support themselves in their old age. We need to address these issues now and ensure that workers begin to accumulate assets early in their careers rather than debt and that they know how to make their income last throughout their retirement years.

Other initiatives should include:

- Increasing public education for average Americans about retirement planning and how much money is needed for 20 – 30 years in retirement. Much of the information in the media is aimed at higher income individuals.
- Providing information to help individuals understand the importance of decisions about taking jobs and leaving jobs. Women are more likely to spend their lump-sum retirement distributions because they have smaller amounts in their accounts.
- Considering the effect of various types of insurance on retirement planning -- such as long-term care policies and annuities.
- Providing better public education in financial planning for contingencies such as widowhood and divorce. Educating lawyers and judges about pension division at divorce.

Finally, many people are making retirement decisions based on the fact that they want to stop working so they can enjoy life before they die – the desire to retire before you expire. But a key factor to consider before retiring is that you are more likely to live longer and *not* die for twenty plus years – years that may find you losing purchasing power with inflation and needing more income for chronic medical needs. Older women too often quietly live out their retirement years in precarious financial straits, trying to stretch modest incomes to meet costly needs.

Again, we thank the Committee for your leadership in acknowledging the need for financial education and thank you for the opportunity to participate in this hearing.