FINANCING YOUR FUTURE:

WOMEN AND RETIREMENT INCOME

Business and Professional Women's Foundation
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THE BUSINESS AND PROFESSIONAL WOMEN'S FOUNDATION
provides information, education and research programs designed
to help improve the economic status of working women.

Established in 1956 by the members of Business and Professional Women/USA (BPW/USA), the BPW
Foundation is a nonprofit public grantmaking organization governed by a
volunteer Board of Trustees comprised of BPW leaders and public representatives.

December 1992
Mention retirement and many people think of crisscrossing the country in an RV, vacationing half the year in Florida or simply enjoying the quieter pleasures of life. What is often neglected in this vision is any thought of retirement income — where it's going to come from and how much is going to be available. Planning for retirement income is essential, though, especially for women.

The United States' retirement system has often been referred to as a three-legged stool, with Social Security, individual savings and employer-sponsored pension plans as the legs. Women, however, often have income only from Social Security benefits during their retirement years — resulting in a rather unsteady retirement berth. Family responsibilities, lower earnings due to the wage gap and occupational segregation result in smaller Social Security payments, less income from personal savings and lower participation in and income from private pension plans. Although women's participation in the labor force has increased steadily over the past four decades, marital status — not employment status — remains the most significant predictor of a comfortable retirement or a life ending in poverty. A widowed woman is four times more likely, and a single or divorced woman five times more likely, to live in poverty after retirement than a married woman. Eighty percent of the widows now living in poverty were not poor before the death of their husbands.¹

Overall, the number of elderly poor has decreased over the past 30 years, primarily because of government transfer programs, such as Social Security, and private pension benefits. Still, three out of five elderly households do not have sufficient income to meet living expenses. Poverty rates also vary significantly among subgroups of the elderly, increasing with age and differing considerably by race, ethnicity and gender. In 1990, elderly family households had more than twice the annual median income of elderly nonfamily households² — $25,105 compared with $10,244 — while elderly women living alone had annual median incomes of only $9,513. Although in 1990 women comprised only 58 percent of the total elderly population, they made up 74 percent of the elderly poor.³

THE SOCIAL SECURITY SYSTEM

Social Security benefits are a major source of income for three out of five individuals over 65. For one-fourth of the elderly, Social Security benefits provide 90 percent or more of their income. Older women, however, are almost twice as likely as older men to have Social Security benefits as their only source of income. In 1991, women received an average monthly Social Security benefit of $519, only 70 percent of men's average benefit of $680.⁴

Historical Background

The Social Security system was enacted in 1935 to provide families with financial protection in the event of lost wages due to disability, death or retirement. Initially, the system only provided benefits to individual workers; however, coverage was expanded within a few years to also include dependents' benefits. The same system is, largely,
still in place today. Although coverage has expanded and the level of benefits has grown in real terms, the fundamental elements of the program — the financing basis and the general redistributive structure of the benefit formula — have changed minimally over the years. 

**Benefit Calculation**

The Social Security system covers workers in private companies and nonprofit organizations, members of the military and civilian employees of the federal government hired in 1984 and after. It also covers about 70 percent of state and local government employees, some employees of religious organizations and people who are self-employed. The Social Security system is financed with Federal Insurance Contributions Act (FICA) payroll tax contributions paid by workers and their employers. Self-employed individuals pay taxes under the Self-Employment Contributions Act (SECA).

A common misconception about the Social Security system is that retired workers are drawing on the money they paid into the system when they were working. Instead, the monthly benefit a worker receives is based on the number of years worked and the worker's average earnings, not on how much money that person and her or his employer paid into the system. The Social Security system is not an individual savings program but is instead an intergenerational transfer program. In other words, taxes are collected from one generation — current workers — and the resulting revenue is then transferred to another generation — people who are retired.

When workers retire, their benefits are based on their indexed, covered earnings, averaged over their working years. Once awarded, benefits are automatically increased as the overall cost of living rises. The formula used to calculate benefits is progressive; that is, benefits replace a higher proportion of earnings for people with lower earnings than for those with higher earnings. Social Security benefits are calculated based on three forms of eligibility:

- **Worker Benefits** — paid to a retired or disabled worker based on his or her own earnings.
- **Spousal Benefits** — paid to a spouse of a retired or disabled worker. The spousal benefit is equal to one-half of the spouses' worker benefit.
- **Survivor’s Benefits** — paid to certain family members of a deceased worker's family, based on the worker's earnings.

Although the language of the Social Security Act is gender neutral, the system was developed to meet the needs of a traditional 1930s family, not the needs of individuals and families today. The Social Security system, as developed, reflected the basic assumptions of the 1930s: marriages lasted for life and men worked outside the home for wages — usually for the same employer over the duration of his career — while women worked in the home. Thus, the Social Security system
pays higher benefits to workers with continuous employment and increasing wages and penalizes workers who exit and re-enter the labor force.

The amount of a worker’s individual benefit is based on a 40-year work history, with the five years of lowest income removed. A zero is entered into a worker’s earning record for each year she or he is not working during the computation period. Men spend, on average, one year out of the work force, compared to women’s 11.5 year average — due mainly to family responsibilities. In 1984, 55 percent of all working women had caregiving responsibilities, which resulted in an average absence from the labor market of 7.5 years. However, only 0.2 percent of men took time out of the paid labor force due to caregiving responsibilities. Even with women’s increasing participation in the labor force, the majority of women still do not spend 35 years in the paid labor force because of their family responsibilities. As a result, most women workers continue to have zeros averaged into their benefit calculation, lowering their worker benefits. Even by 2030, it is projected that only four out of 10 women will have worked for 35 years under Social Security coverage. The other 60 percent of working women will continue to have zeros averaged into their benefit calculation.7

<table>
<thead>
<tr>
<th>TABLE 1. Social Security Penalizes Working Women for Caregiving</th>
</tr>
</thead>
</table>
| **Average Annual Earnings**
(over 35 year period) | $15,000 |
| Monthly Benefits (under various examples)                    |       |
| 1. Retires Age 65 (in 1993 with no "zero" years) | $608 |
| 2. Retires Age 62 (in 1990 for elder care responsibilities with no "zero" years) | $484 |
| 3. Retires Age 65 (in 1993, spent 12 years outside paid work force) | $524 |
| 4. Retires Age 62 (in 1990, spent 12 years outside paid work force) | $419 |

Dual Entitlement

A worker whose estimated retirement worker benefit is lower than their estimated benefit as a spouse is considered to be "dually entitled." Under the dual entitlement provision, a person who is entitled to both a worker's benefit and a spousal or survivor's benefit cannot receive the full amount of both benefits. Rather, the individual collects an amount equal to the higher of the two benefits.

Due to the wage gap between men and women, as well as women's higher levels of caregiving — which translate into a tendency to enter and exit the paid labor force more frequently than men — married women usually earn benefits that are lower than the spousal or survivor's benefit they are entitled to from their husband's earnings record. In fact, married women who are in the paid labor force and earn Social Security credits in their own right generally face the greatest inequities in the system.

TABLE 2. Average Annual Lifetime Earnings and 1992 Monthly Social Security Retirement Benefits¹

<table>
<thead>
<tr>
<th>EARNINGS</th>
<th>CLEAVERS</th>
<th>BUNKERS</th>
<th>KEATONS</th>
<th>SEAVERS²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Husband:</td>
<td>$24,000</td>
<td>$16,000</td>
<td>$12,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>Wife:</td>
<td>$0</td>
<td>$8,000</td>
<td>$12,000</td>
<td>$8,000</td>
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<tr>
<td>Family Total:</td>
<td>$24,000</td>
<td>$24,000</td>
<td>$24,000</td>
<td>$32,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BENEFITS:</th>
<th>CLEAVERS</th>
<th>BUNKERS</th>
<th>KEATONS</th>
<th>SEAVERS²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Husband:</td>
<td>$957 (WB)³</td>
<td>$712 (WB)</td>
<td>$591 (WB)</td>
<td>$957 (WB)</td>
</tr>
<tr>
<td>Wife:</td>
<td>$478 (SB)</td>
<td>$468 (WB)</td>
<td>$591 (WB)</td>
<td>$478 (SB)</td>
</tr>
<tr>
<td>Family Total:</td>
<td>$1,435</td>
<td>$1,180</td>
<td>$1,182</td>
<td>$1,435</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SURVIVOR BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount:</td>
</tr>
<tr>
<td>As % of Couples</td>
</tr>
</tbody>
</table>

¹For workers retiring at age 65 in 1992.
²The Cleavers are husband employed full-time and stay-at-home wife. The Bunkers are husband employed full-time and wife employed part-time. The Keatons are both husband and wife employed full-time. The Seavers are husband employed full-time and wife who works freelance.
³(WB) Worker's Benefit; (SB) Spousal Benefit
⁴Spouse continues to collect on her own benefit. Survivor benefit does not apply.

Many of these "dually entitled" women find that their benefits are not any different than if they had never been employed in the paid labor force.

A two-earner couple may contribute more to the Social Security system but actually receive less in benefits than a one-earner couple earning the same income. Moreover, survivors of a one-earner couple will receive a higher percentage of the couple's benefit than a two-earner couple with the same average lifetime earnings.

Despite the increase in women's participation in the labor force, the percentage of women receiving Social Security benefits from their own work record has not changed. In 1988, 38 percent of women beneficiaries drew benefits on their own work records, the same number as in 1960.6

**Social Security and You**

If you want to learn more about your social security benefits, complete the *Personal Earnings and Benefit Estimate Statement* included with this paper. This will not only give you an estimate of your retirement benefits, but will also allow you to verify the information the Social Security Administration has on your employment record. In fact, the Social Security Administration recommends submitting the *Personal Earnings and Benefit Estimate Statement* every three years to keep track of your benefits and ensure an accurate history of your employment record.

If you were born before 1938, you will be eligible for full Social Security benefits at age 65. For people born after 1938, beginning in 2000, full benefits will be paid in gradual increases from age 65 to 67. You may start receiving your benefits as early as age 62, however, no matter what your "full" retirement age is.

There are both disadvantages and advantages to taking Social Security retirement benefits before the full retirement age. The disadvantage is that your benefit is permanently reduced; the advantage is that benefits are collected for a longer period of time.

Some people continue to work past their full retirement age and, as a result, do not sign up for Social Security benefits at age 65. This delay in applying can increase your Social Security benefit in two ways:

- The additional income will usually increase your "average" earnings, which is the basis for determining the amount of your retirement benefit.

- A special credit is given to people who delay retirement. The credit, a percentage added to the Social Security benefit, varies depending on your date of birth.

An earnings limit applies to people under 70 who have applied for and are receiving Social Security retirement benefits and are still working. If you need information about Social Security earnings limits and how they affect you, call any Social Security office and ask for their free factsheet, *How Work Affects Your Social Security Benefits* (Publication No. 05-10069).
Applying for Benefits

You can apply for retirement benefits at any Social Security office. The Social Security Administration recommends calling its toll-free number about three months before you would like to start receiving your benefits. The number is 1/800/772-1213. To demonstrate your eligibility for Social Security benefits, you will need to provide the Social Security Administration with some of the following documents (which ones are necessary will depend on your particular circumstances):

- Your Social Security card (or a record of your number);
- Your birth certificate;
- Your marriage certificate (if signing up on a spouse’s record);
- Your most recent W-2 form, or your tax return if self-employed.

If you don’t have the documents you need, don’t let this delay your application for benefits. The Social Security Administration will assist you in obtaining all of the necessary documentation.

Once you’ve signed up for retirement benefits, you should receive a booklet from the Social Security Administration explaining your rights and responsibilities. If you have questions not addressed by this booklet, the agency also produces a variety of informational publications available free to the public.

PRIVATE PENSIONS

The lack of pension benefits is one of the major factors contributing to higher poverty rates among elderly women. Private pension plans, like the Social Security system, are not designed to discriminate against women, yet they usually do. The typical private pension plan is structured to reward employees who have uninterrupted employment with the same employer and high wages — and employees who fit this picture are usually male. In 1989, the average annual pension income for women over age 65 was $5,220, compared to $8,649 for men. Moreover, only 10 percent of women receive any benefits at all from private pension plans.

Historical Background

Private pension plans have existed for more than 100 years. Their real growth, however, did not begin until after World War II when the government provided businesses with an exception from wage-price controls for pensions and other fringe benefits. From 1950 to 1975, the percentage of private sector employees with pension coverage doubled from 26 to 52 percent.

Pension coverage among all full-time private-sector employees reached an all-time high of 50 percent in 1979. Since then coverage has leveled off and may, in fact, be declining. Today, there are approximately 800,000 private pension plans. Their assets currently total over $2 trillion, and tax credits for private pensions represent the single largest deduction in the federal tax code.
Pension Legislation

During the 1960s and 1970s, concern grew that some workers were being treated unfairly with regard to pension coverage and receipt. These issues led to the development and enactment of pension regulation, summarized in Appendix A. The responsibility for carrying out pension law is shared by the Internal Revenue Service and the Department of the Treasury, which are responsible for participation, vesting and funding; the Department of Labor, which is responsible for fiduciary standards and reporting and disclosure requirements; and the Pension Benefit Guaranty Corporation (PBGC), which is responsible for private pension benefit insurance provisions.  

This legislation has improved pension benefit coverage and receipt for women workers. According to a study by the General Accounting Office, recent pension regulations will increase pension coverage and participation for lower-paid workers, improve benefit entitlement for shorter-tenured workers and improve benefit equity between men and women — particularly in plans sponsored by small employers. Recent legislation does not address the limited pension coverage in the service and retail occupations, though.

Pension Plan Definitions

The following terms are commonly used when discussing private pension plans.

VESTING — A plan must provide that an employee will, after meeting certain requirements, retain a nonforfeitable right to the benefits she or he has accrued, or some portion of them, even if the employee covered under the plan leaves their job before retirement. An employee who has met such requirements is said to have a "vested" right. Employee contributions to a pension plan are always fully vested.

By law, a plan is required to meet one of two vesting alternatives. One alternative is the "five-year cliff" schedule under which plan participants have a nonforfeitable right to employer-provided contributions after the completion of five years of employment. The other alternative is to provide plan participants with a nonforfeitable right to employer-provided contributions on the following graded vesting schedule:

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Vesting Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>80</td>
</tr>
<tr>
<td>7</td>
<td>100</td>
</tr>
</tbody>
</table>

Multi-employer pension plans satisfy the minimum vesting requirements if a participant’s employer-paid accrued pension benefit is fully vested upon the completion of 10 years of service.

BREAKS IN SERVICE — A plan participant who does not complete 500 or more hours of service during a calendar year, plan year, or other 12-consecutive month period designated by the plan has a break in service. Employees who work at least 1,000 hours in a year are entitled to receive a year’s credit toward meeting...
participation and vesting requirements and at least partial credit for accruing benefits. This is roughly six months of full-time work or a full year of half-time work. An employee who works between 501 and 999 hours during a year can be denied credit for participation, vesting and benefit accrual, but will not incur a break in service.

YEAR OF SERVICE — A year of service for purposes of participation and vesting is generally a 12-month period during which an employee has 1,000 hours of service. Employees should examine their plan documents carefully to ascertain how their plan determines a year of service so they do not inadvertently incur a break.

Types of Pension Plans

Pension plans, whether private or public sector, usually are structured as one of two types: a defined benefit plan or a defined contribution plan. In addition, a third type, called a cash balance plan, has become more common over the past few years.

Defined Benefit Plans

A defined benefit plan is one that promises to pay an individual a specific benefit at retirement. The benefit is usually calculated on a percentage of the employee's average earnings multiplied by her or his years of work under the plan. The most common method of payment from a defined benefit plan is a lifetime monthly pension starting at retirement age. Some plans also pay benefits in the form of a lump sum. In a defined benefit plan, individual employees do not have separate accounts; instead all money paid into the plan is pooled in a single fund. The fund, however, must still keep track of the amount of benefits each worker has earned. Examples of defined benefit plans are the railroad retirement system, the federal civil service and military retirement systems and most large company and union pension plans.

The primary advantage defined benefit plans offer workers is that the employer promises to pay a specific pension benefit at retirement and is obligated to set aside sufficient funds to ensure that the benefits can be paid. The employer bears the risk of investment performance; however, these plans are not totally "risk free" for the employee. Mergers, acquisitions or other financial or organizational shifts may result in the dissolution of a defined benefit plan, although an employee's benefits earned up the point of the merger, acquisition or dissolution are protected by the Pension Benefit Guaranty Corporation (PBGC). Another disadvantage to defined benefit plans, from an employer's perspective, is that they have higher administrative costs than defined contribution plans.

Defined Contribution Plan

In contrast, under a defined contribution plan, the employer promises only to contribute a certain amount per year to the plan for each employee and the benefit the employee receives at retirement is not specified. The contribution is usually a percentage of the worker's earnings that year and each employee has a separate account.
Additionally, some defined contribution plans require employee contributions into the plan, while other plans allow employees the choice of contributing. The benefit that an employee receives at retirement consists of whatever money has been paid in plus the investment earnings. Many of these plans pay benefits in the form of a lifetime pension, but they also commonly offer benefits in the form of a one-time payment or lump sum. Examples of defined contribution plans include profit-sharing plans, savings plans and 401(k) plans. TIAA-CREF (The Teachers Insurance and Annuity Association-College Retirement Equities Fund) is also a defined contribution pension plan.

Defined contribution plans are essentially tax-deferred savings arrangements. They are usually more advantageous for younger workers and individuals who change jobs frequently since employees can take their pension benefits with them upon changing jobs. Their principal disadvantage is that the amount available at retirement is uncertain and employees bear the risks of investment performance. The advantage to employers is their ease in administration; their appeal to employees centers on their portability, as well as the higher earnings that result from all employees pooling their assets. According to the Internal Revenue Service, 86 percent of the new pension plans started in 1990 were defined contribution plans. Despite their growing popularity, these plans tend to provide fewer benefits to moderate-and lower-income workers who usually cannot afford to contribute to the plan. Only 9 percent of workers who earn less than $25,000 are able to contribute to defined contribution plans, and the amounts they are able to put in are small, amounting to only one-fifth of the total contributed.

**Cash Balance Plan**

A hybrid of the defined benefit plan and the defined contribution plan that is projected to grow in popularity is the cash balance plan. Under a cash balance arrangement, each participant has an individual account that is credited with a yearly addition. Interest is credited at a rate specified in the plan and is unrelated to the investment earnings of the trust fund. Upon termination of employment, the amount of the lump-sum distribution is equal to the account balance. If an annuity is selected, the amount is the actuarial equivalent of the account balance.

A cash balance plan provides more generous benefits for individuals who retire at earlier ages or switch employers with some frequency — an employment pattern that is becoming much more common. As a result, however, these arrangements have higher costs and benefits for younger, short-service employees and lower costs and benefits for older, long-service employees than would be the case under the traditional defined benefit plan. Employees, however, do not bear all of the investment risk in cash balance plans, unlike defined contribution plans.

**Keogh Plans**

Keogh Plans are pension plans for self-employed individuals. The Tax Equity
and Fiscal Responsibility Act of 1982 (TEFRA) substantially changed the structure of pension plans for self-employed individuals. TEFRA generally eliminated the distinction in the tax law between qualified corporate pension plans and those of self-employed individuals. Keogh plans are subject to the same limits on contributions and benefits as are private pension plans.

**Individual Retirement Accounts**

The IRA was first authorized by the Employee Retirement Income Security Act (ERISA) for individuals not covered by employer pension plans. Eligibility was broadened in 1981 to cover all employed individuals and their spouses. Individuals may contribute the lesser of $2,000 or 100 percent of their annual wages to an IRA. Income tax on the contributed money is deferred only if at least one of two conditions is met:

- the contributor (and, for joint filers, the spouse) is not eligible to participate in an employersponsored retirement plan; or

- the contributor has adjusted gross income (AGI) below $25,000 ($40,000 for a joint filer).

A partial deduction is allowed if adjusted gross income falls between this level and $35,000 ($50,000 for a joint filer). An IRA can be established for a nonworking spouse, but the combined annual contribution to the IRA for a working and a nonworking spouse cannot exceed $2,250. Only 6.1 million tax filers, or six percent, reported IRA contributions for 1988.\textsuperscript{15}

**Pension Plan Coverage**

When discussing pension plan coverage, it is important to distinguish between an employee's eligibility for pension coverage and their actual participation in pension plans. A majority of full-time workers are not covered by a company-sponsored pension plan, and many workers who have pension plan benefits do not participate.

- Only 46 percent of full-time workers are covered by private pension plans; 43 percent of women workers and 50 percent of male employees.

- Only 29 percent of women employed in the private workforce actually participate in a basic pension plan, compared to 38 percent of men.

Pension coverage is rare among low-income and middle-income workers. Only 13 percent of workers earning less than $10,000 annually have benefits that include an employer-sponsored pension plan, while only 41 percent of employees earning between $10,000 and $20,000 have pension coverage. Over 75 percent of employees earning $30,000 or more, however, have pension plan coverage.\textsuperscript{16}

In 1988, more than two-thirds of working women earned less than $20,000 per year, compared to 41 percent of working men.\textsuperscript{17}

Pension coverage is also provided less often by small businesses. Only 24 percent of employees in businesses with 100 or fewer employees have employer-sponsored pension plan coverage while

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>23%</td>
<td>10%</td>
</tr>
<tr>
<td>$10,000 - $19,999</td>
<td>47%</td>
<td>31%</td>
</tr>
<tr>
<td>$20,000 - $29,999</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>$30,000 - $49,999</td>
<td>9%</td>
<td>27%</td>
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<tr>
<td>$50,000 and over</td>
<td>1%</td>
<td>8%</td>
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<table>
<thead>
<tr>
<th>Pension Coverage</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $10,000</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>$10,000 - $19,999</td>
<td>46%</td>
<td>36%</td>
</tr>
<tr>
<td>$20,000 - $29,999</td>
<td>64%</td>
<td>63%</td>
</tr>
<tr>
<td>$30,000 - $49,999</td>
<td>75%</td>
<td>74%</td>
</tr>
<tr>
<td>$50,000 and over</td>
<td>77%</td>
<td>79%</td>
</tr>
<tr>
<td>All Earnings</td>
<td>43%</td>
<td>50%</td>
</tr>
</tbody>
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just 17 percent of workers at firms employing fewer than 25 people have employer-sponsored pension plan benefits. 45 percent of women employed in the paid labor force, however, work for small business owners with 100 employees or fewer.18

The law permits employers to deny pension coverage to part-time workers, resulting in the exclusion of many women from their companies’ pension plans. In 1992, approximately 13.5 million women worked part-time, accounting for more than two-thirds of all part-time employees.19 Moreover, three-quarters of all part-time jobs are in sales, clerical, service and unskilled labor occupations, while only one-sixth are in managerial, professional and technical fields.20 Sales, clerical, service and unskilled labor jobs are the lowest paying occupations for full-time employees — and part-time workers usually earn only about 60 percent of the hourly wage of full-time workers. As a result, women employed in these jobs will likely retire with no pension benefits, lower Social Security benefits and little, if any, personal savings.
Unionization, however, increases the chances of an employee being entitled to pension benefits. For employees with union representation, the pension coverage rate is 75 percent, compared with 43 percent among employees who are not represented by a union. \(^{21}\) Furthermore, union membership usually increases women's earnings and, as a result, tends to have a doubly beneficial effect on pension plan benefits since higher wages typically equal higher pension benefits. \(^{23}\)

**Pension Integration**

Most small pension plans and a significant portion of larger pension plans use formulas that effectively subtract part of an employee's Social Security benefit from their pension benefits. This practice, called pension integration or permitted disparity, disproportionately affects low-income employees because Social Security pays proportionately higher benefits to the lower paid.

Pension integration is based on the premise that the retirement benefits provided to low-wage workers by Social Security are higher than the benefits provided to high-wage workers, and, therefore, employers should be able to use pension plans to even out this "discrimination against higher-paid employees." The law was modified in 1989 to ensure that a worker's pension benefit could not be reduced by more than half for years worked after 1989, but this practice still penalizes low-wage employees, many of whom are women. Moreover, workers who have fully qualified for benefits earned prior to 1989 can still have their entire pension benefits eliminated or integrated out by the size of their Social Security benefits.

For example, if a worker had a $300 per month pension based on earnings prior to 1989 and $600 per month in Social Security benefits, the worker whose pension plan is fully integrated with Social Security will likely receive no pension at all. In medium and large firms, two-thirds of full-time workers are in integrated plans. \(^{23}\)

**Spousal Consent Requirements**

The spousal consent requirement was enacted by Congress under the Retirement Equity Act (REA) to ensure spouses' access to survivor benefits. Under this provision, employers must obtain written consent from spouses of retiring workers who choose pension benefits payable over their lifetimes, but not during their surviving spouses' lifetimes. A married employee must obtain written, notarized consent from her or his spouse in order to forego survivor benefits. This written consent must also acknowledge the effect of not selecting the survivor benefit, which is usually cessation of pension benefits upon the death of the covered employee.

**Pension Portability**

Portability of pension benefits refers to accruing and carrying benefits, service or assets when a worker leaves a job. Pension portability in its broadest sense encompasses both portability of service and portability of assets. It is important to understand the distinctions when discussing portability proposals.
Portability of service is the ability to transfer credit for years of service from one employer (who offers a defined benefit plan) to another employer (who also offers a defined benefit plan) when changing jobs. With the exception of multi-employer pension plans (and Social Security), this type of portability is quite rare. As a result, a frequent job changer may wind up with only half the pension income they would have received if they had remained with the same employer, even if the employee is covered by a succession of identical defined benefit plans over their entire career. This is because the defined benefit pension amount from each employer is based on the employee's salary at the time of each job separation. By the time the pensions are received at retirement age, they will have lost value because of pre-retirement inflation. For example, if a person left a job 15 years ago at a salary of $15,000 and retired today, the pension would be based on the $15,000 salary. Because of inflation, the value of that benefit will already be worth only half of what it was when the worker left the job.²⁴

In comparison, workers do not necessarily suffer economic losses when covered by a succession of identical defined contribution plans, since they are given the accumulations in their accounts when they leave their jobs. Funds can then be reinvested and continue to earn additional interest until retirement, thus preserving their value. This is one type of portability of assets.

Portability of assets refers to the practice of giving an employee a lump sum of money at the time he or she leaves the company rather than future pension benefits at retirement age. Portability of assets is relatively common. About 90 percent of defined contribution plans provide employees with their account balances when they leave a job, and about one-half of defined benefit plans are estimated to offer employees a lump-sum distribution when they leave a job. Women are nearly 40 percent more likely than men to receive pre-retirement distributions from qualified plans and to receive them at younger ages than men. Because of their lower earnings and greater mobility in the labor force, though, women usually receive smaller distributions than men.

Although workers do not automatically lose money with portability of assets, a person changing jobs will not necessarily benefit financially. If the employee can take his or her vested benefits in the defined benefit plan in a lump sum, this "cashout" represents the "present value"²⁵ of the future pension benefits. Unless the cashout can be reinvested to earn the same rate of interest as the plan used to compute the present value, it will not produce the same amount of retirement income as would be the case if the employee received a deferred benefit from the plan at retirement.

Moreover, unless cashouts are rolled over into an IRA (Individual Retirement Account) or otherwise saved, the funds will not be available as retirement income. According to the Employee Benefit Research Institute, only about one of every 10 recipients roll their entire distribution over into another plan or IRA. Women, however, roll over a larger share of their total distributions.
than men, placing 29 percent of the funds received in IRAs or qualified plans, compared to 19 percent by men.\textsuperscript{26}

However, starting in January 1993, departing employees must arrange to leave retirement monies in their current plan, or have it transferred directly to an IRA or their new employer's pension plan, or they will face a 20 percent withholding requirement on lump-sum pension distributions. At present, employees have 60 days to decide whether to roll the money over into an IRA or another qualified plan without incurring the penalty. The new regulation was enacted to strengthen the incentives for employees to keep their retirement monies in a tax-deferred plan. If you participate in a pension plan and are planning a job switch be sure to arrange rollover provisions \textit{before} leaving your current position, in order to avoid the 20 percent penalty.

**Pension Coverage Trends**

Pension coverage has plateaued at about 50 percent of the work force for the last 15 years. The high concentration of small firms in the expanding service industry and the low coverage rates among service industry workers are likely to result in a stable or slightly declining portion of the private labor force participating in pension plans. Future pension coverage trends are expected to parallel the trends in the employment sector.\textsuperscript{27} Moreover, women remain concentrated in these low-wage service occupations where the rate of pension coverage is low, and this occupational segregation is not expected to change significantly.

**Your Pension Benefits**

As you can see from the above information, private pension plans vary considerably in composition and administration. Moreover, pension legislation has led to complex regulations governing pension coverage and benefits, and individuals with specific questions about pension plans are advised to contact an attorney who specializes in employee benefits.

If you have pension benefits, you should familiarize yourself with the details of your plan. The plan administrator can give you informational materials. In fact, if your pension plan is covered under ERISA, the administrator of the plan is required to provide each participant with a summary of its provisions. This summary must be written in easily understood language and must include detailed information about eligibility requirements for benefits, how a worker accumulates benefits and can lose benefits, whether the plan is covered by plan termination insurance, and how to file a claim for benefits. If you still have questions, contact the plan administrator for more information or an organization or financial adviser or attorney who specializes in employee benefits.

If you are not covered by a plan, you should consider establishing an IRA, or some other type of personal retirement plan. Retirement planning kits are available free of charge from several investment firms — ask your friends or your employer if they can recommend a reputable firm. Educational institutions and community groups also sponsor retirement planning seminars.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male-dominated industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Manufacturing, durable goods</td>
<td>64%</td>
<td>68%</td>
</tr>
<tr>
<td>Trade, wholesale</td>
<td>38%</td>
<td>52%</td>
</tr>
<tr>
<td>Transportation and public utilities</td>
<td>65%</td>
<td>60%</td>
</tr>
<tr>
<td>Construction</td>
<td>25%</td>
<td>32%</td>
</tr>
<tr>
<td>Female-dominated industries</td>
<td>49%</td>
<td>57%</td>
</tr>
<tr>
<td>Finance, insurance and real estate</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Services, professional</td>
<td>43%</td>
<td>55%</td>
</tr>
<tr>
<td>Gender-balanced industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services, business and personal</td>
<td>19%</td>
<td>30%</td>
</tr>
<tr>
<td>Manufacturing, nondurable goods</td>
<td>50%</td>
<td>66%</td>
</tr>
<tr>
<td>Trade, retail</td>
<td>28%</td>
<td>31%</td>
</tr>
</tbody>
</table>


CONCLUSION

Although the Social Security system and the private pension system were not designed to discriminate against women, the fact is that they do. Women workers continue to bear the disproportionate burden of retirement inequities as a result of their higher family caretaking responsibilities, occupational segregation, low wages and lack of career advancement opportunities. Women's employment patterns have changed significantly over the past 20 years. Today, and for the foreseeable future, women will be in the labor force for the majority of their adult lives. However, without changes in the retirement system, by 2020 two out of five elderly women living alone will still be living on incomes less than the equivalent of $9,500 in today's dollars.

Although reform is essential if the discrimination against women inherent in our retirement system is to be resolved, it is equally as important for women to begin planning for their retirement long before they actually leave the labor market. Your current employment and savings patterns are strongly tied to your future retirement income — and it's never too early to start financing your future.
<table>
<thead>
<tr>
<th>Year Enacted</th>
<th>Legislation</th>
<th>Key Provisions</th>
</tr>
</thead>
</table>
| 1974         | ERISA       | Set plan funding standards  
                              | Set standards for fiduciary conduct  
                              | Set standards for eligibility, vesting  
                              | Required reporting and disclosure by plans  
                              | Established PBGC to insure DB plans  
                              | Established IRAs for nonparticipants |
| 1978         | Revenue Act | Established SEP's and 401(k) plans |
| 1980         | MEPPAA      | Increased PBGC insurance premiums  
                              | Required faster funding  
                              | Imposed liability on departing employers |
| 1981         | ERTA        | Placed 10% tax on early withdrawals  
                              | Made IRAs available to all workers  
                              | Increased Keogh and SEP contribution limits |
| 1982         | TEFRA       | Made compensation and benefit limits the same  
                              | for all employer plans  
                              | Tightened Social Security integration rules  
                              | Penalized early distributions to key employees  
                              | Established special rules for top-heavy plans |
| 1984         | DEFRA       | Reduced real-dollar limits on contributions and benefit  
                              | Penalized early distributions to 5% owners  
                              | Changed 401(k) rules and top heavy rules |
| 1984         | REA         | Provided for division of pension benefits in divorce settlements  
                              | Required spouse consent for waiver of survivor annuity option  
                              | Provided surviving spouse benefits when participant dies before retirement age  
                              | Lowered age for plan participation and vesting |
| 1986         | SEPPAA      | Raised PBGC insurance premium  
                              | Limited plan terminations to distressed plans  
                              | and those with adequate funding |
| 1986         | TRA         | Reduced vesting requirements  
                              | Set minimum coverage and participation rules  
                              | Set 10% penalty on all early distributions  
                              | Set 15% tax on excess distributions  
                              | Reduced tax averaging on lump-sum payments  
                              | Set cap on 401(k) contributions  
<pre><code>                          | Changed contribution limits for profit-sharing plans |
</code></pre>
<table>
<thead>
<tr>
<th>Year Enacted</th>
<th>Legislation&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Key Provisions&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>TRA</td>
<td>Set limits on maximum benefits&lt;br&gt;Restricted deductibility of IRA contributions&lt;br&gt;Changed integration rules&lt;br&gt;Changed highly compensated employee definition&lt;br&gt;Allowed elective contributions to SEPs&lt;br&gt;Applied nondiscrimination rules to 403(b) plans</td>
</tr>
<tr>
<td>1986</td>
<td>OBRA of 1986</td>
<td>Required continuation of contributions and accruals regardless of age</td>
</tr>
<tr>
<td>1987</td>
<td>OBRA of 1987</td>
<td>Increased PBGC insurance premiums&lt;br&gt;Required faster funding of past service liabilities&lt;br&gt;Set upper bound on plan funding</td>
</tr>
<tr>
<td>1988</td>
<td>TAMRA</td>
<td>Changed nondiscrimination rules for 403(b) plans&lt;br&gt;Changed rules for partial rollovers&lt;br&gt;Increased tax on asset reversions</td>
</tr>
<tr>
<td>1990</td>
<td>OBRA of 1990</td>
<td>Changed rules for asset reversions and increased excise tax&lt;br&gt;Increased PBGC insurance premiums</td>
</tr>
</tbody>
</table>


<sup>b</sup> Abbreviated terms are as follows: DB — defined benefit; DC — defined contribution; IRAs — individual retirement accounts; Keogh — retirement plans for the self-employed; PBGC — Pension Benefit Guaranty Corporation; SEPs — simplified employer pensions; 401(k) — salary reduction retirement plans offered to employees by private firms; 403(b) — tax-deferred annuity plans offered by certain nonprofit institutions to their employees.

ENDNOTES


2. According to the U.S. Bureau of the Census, a family is a group of two persons or more related by birth, marriage, or adoption and residing together. Family households are households maintained by a family, as well as any unrelated persons who may be residing there. A non-family household consists of persons maintaining a household while living alone or with nonrelatives only.


6. Federal government employees hired before 1984 were given the chance to transfer to a new retirement system that included social security coverage for future years of work.


8. ibid.


12. The Pension Benefit Guaranty Corporation (PBGC) was established by the Employee Retirement Income Security Act of 1974 to insure private sector defined benefit plans in cases of employer bankruptcy or insolvency.


14. A multiemployer pension plan is a collectively bargained arrangement where many employers in a particular trade or industry participate in one umbrella plan covering a geographical area.


25. The "present value" means the value of benefits accrued to date without any consideration of future salary increases or future employment.

