

## **Public Policies toward Older Women in an Aging Society**

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Social security is on the table again as a public policy issue. When we talk about the older population, and especially about the very old, we are talking disproportionately about women. Women constitute half of all people in their 40's, but 2 out of 3 people over 85. More than half of women who are 55 years old today will live to age 85 and a quarter will live to 95 ([www.census.gov/populationprojections](http://www.census.gov/populationprojections)). Many demographers expect life expectancy to rise even faster than these estimates imply. So public policies that affect the old, such as social security, will apply to an ever-increasing group of people and the majority of them will be women. Moreover, broader health and social problems of the very old, such as loneliness, poverty and age-related illnesses like macular generation and Alzheimers, are disproportionately women's problems.

Old age security systems around the world do indeed contain provisions that are especially relevant to women. However, they were often designed for yesterday's women and may not be best for the women of today and tomorrow. Women's economic and social roles have undergone dramatic changes over the past two generations. They now have greater discretion than ever before over how to lead their lives—for example, whether to marry, have children, work in the home or the market. But this discretion also means that they are likely to be more responsive to incentives from the old age security system and other public policies. In this note I focus on three themes: 1) many policies that are supposedly gender-neutral in fact are particularly germane to women, because of their demographic and economic circumstances; 2) some "protective" policies have the important side-effect of discouraging market work by women and that may not be in their

best interest; and 3) women can and should be taking pro-active steps when young to bring them greater financial independence and security when old.

### **The special demographic and economic situation of older women**

The same policies will have different effects on men and women because the two genders have different employment and demographic histories.

1. Women are less likely to engage in market work than men and when they work they often earn lower wages. Even though the labor force participation rate of women has been rising, it is still only 80-85% that of men and much of that is part-time, in the United States and other industrial countries. In these same countries the median annual earnings of women is only 75-80% that that of men, even when they work full-time.<sup>1</sup> This means that any pension system that links benefits to earnings will produce lower benefits for women. It also means that women have smaller retirement savings and investments than men. Safety net provisions in old age security programs are especially important for women—but it is crucial to design them in a way that does not make women's work, wages and pensions even lower.

2. Women live 3-4 years longer than men, often marry husbands who are older than they, and consequently live 5-8 years longer than their husbands. Older women are much more likely to become widows than men are to become widowers and are more likely to live alone than older men. In the U.S., women comprise 80% of the widowed population.<sup>2</sup> Due to household economies of scale, it costs one person about 70% as much to live as two; but household income is likely to be cut by more than half when the

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<sup>1</sup> U.S. Census Bureau, ACS Briefs, 2010. <http://www.census.gov/prod/2010pubs/acsbr09-3.pdf> ; U.S. Bureau of Labor Statistics. 2010. [http://www.bls.gov/emp/ep\\_table\\_303.htm](http://www.bls.gov/emp/ep_table_303.htm); also see Ginn, Jay, Debra Street and Sara Arber. *Women. 2001. Work and Pensions*. Buckingham: Open University Press.

<sup>2</sup> <http://family.jrank.org/pages/1753/Widowhood-Demography-Widowed.html>

higher-earning spouse, the husband, dies. Thus, survivors' benefits are particularly important to women. Without survivors' benefits their standard of living is bound to fall when their husband dies. But current arrangements don't allow women to protect themselves by keeping their own pension as well as the survivor's benefit.

3. Because of their greater longevity, women also face special health problems. They are more likely to be afflicted with diseases that are highly correlated with aging, such as dementia and macular degeneration. These diseases require costly medical and custodial care. In traditional societies older women lived with their grown children in extended families—for example half of all of women over age 60 in Chile do so—but this is no longer customary in the U.S or other high-income countries (James, Estelle, Alejandra Cox Edwards and Rebeca Wong. 2008. The Gender Impact of Social Security Reform. Chicago: University of Chicago Press). Health insurance, long-term care insurance and more general social support systems are pressing needs for older women.

What can women do as individuals to plan for these challenges, and how can public policies, especially social security, be designed in a way that is sensitive to the circumstances of women as well as men?

### **Social security reform and women**

*Retirement age.* In the U.S. the normal retirement age (at which “full” benefits are received) is the same for women and men—now 66 and very gradually rising to 67. Until recently it was lower for women than men in most countries. Western Europe has now moved toward equality but Eastern Europe, China and Latin America retain a gender differential. This may seem advantageous to women but actually it penalizes them—by leading them to have a lower labor force participation rate, less training and experience,

lower wages and, eventually, smaller pensions. Countries are gradually realizing that gender equality in income requires gender equality in retirement age.

The prospect of a higher retirement age for both genders is now under discussion in the U.S., as a way to keep social security solvent. A likely alternative would be reduced benefits. Because of their greater longevity and their lesser access to other financial resources, older women will fare better if the retirement age is raised while benefits levels are maintained. Our current retirement age allows the young-old to enjoy a long period of leisure, but at the potential cost of higher payroll taxes for workers and/or lower benefits for the old-old. Raising the retirement age on par with increases in life expectancy would increase GDP and make the system more financially sustainable without cutting benefits, which would protect the old-old, who are disproportionately women.

*Safety nets.* Social security systems in most countries have provisions to protect low earners in old age. In Europe and Latin America, low earners gain from flat benefits (that are not tied to contributions) or to minimum pension guarantees (that set an income floor). Women are disproportionate beneficiaries of these arrangements. The safety net for seniors in the U.S. social security system takes two forms: a progressive benefit formula (which gives a higher ratio of benefits to contributions at low income levels) and the spousal benefit (married women get 50% of their husband's benefit if this exceeds their own benefit). Both these arrangements subsidize married women and discourage their full-time work. Many "winners" who receive more in benefits than they have contributed are married women from high-income households who chose to work in the market only part of their lives or not at all. In view of our limited budgetary resources,

shouldn't we be targeting these redistributions, instead, to members of low-income households who have worked and contributed steadily over their lifetimes?—many of these are single and divorced women.

*Survivors' benefits.* In principle, survivors (widows and children) could be financially protected by voluntary insurance, but studies show that many families are myopic, don't save and insure enough to handle the risks of life and death, so very old widows are relatively poor. To avoid this outcome, most countries include survivors' benefits in their social security systems. Both husband and wife are typically eligible, although usually the survivor is the wife. In most high-income countries the widow gets 50-80% of the primary pension.

The U.S. is extremely generous—it gives widows 100% of the primary benefit. However, there is a catch. Widows must choose between their own and their husband's benefit—they can't keep both. Even if the wife has worked for her entire adult life, she has to give up her own pension to get the survivor's benefit. She gets little or nothing extra for her lifetime of contributions—they are a pure tax. Research shows that this arrangement for survivor's benefits (and spousal benefits described above) discourages labor force participation by married women, because it reduces their net remuneration from work.<sup>3</sup> It distorts their choice about whether to work in the market or stay at home. It limits their ability to become financially independent and raise their standard of living when old.

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<sup>3</sup> For studies about the impact of spousal and survivors' benefits in the U.S. see Munnell, Alicia and Natalia Jivan. 2005. "What Makes Older Women Work?" Issue Brief, Series 1. Boston: Center for Retirement Research. Boston College; Munnell, Alicia and Mauricio Soto. 2005. "Why do Women Claim Social Security Benefits so Early?" Issue Brief #35. Boston: Center for Retirement Research. Boston College.

For analyses of the impact of the joint annuity arrangement in Chile see James, Edwards and Wong 2008 *op. cit.* and Alejandra Cox Edwards and Estelle James. 2011. "Impact of the Chilean Pension Reform on the Labor Supply of Men and Women." Draft ms. Ann Arbor. Michigan Retirement Research Center.

This distortion would end if women could keep their own pension as well as the survivor's benefit. How can this be done without putting greater fiscal pressures on social security? Policies in Chile suggest a way out of this dilemma. In Chile, married couples must acquire joint pensions when they retire. The primary pension is smaller, by enough to cover the benefit that the surviving spouse will eventually receive—so this does not become an additional fiscal burden. The widow is allowed to keep the survivor's pension (which her husband has already paid for) in addition to her own pension. Research shows she is more likely to work when the implicit tax on contributions is eliminated.<sup>3</sup> Her standard of living is higher and she contributes more output to the broader economy.

*Indexation.* An important feature of social security systems is price or wage indexation of benefits. Under price indexation the monetary value of the pension rises with prices, holding the real purchasing power of the pension constant. Under wage indexation, the pension rises faster, in line with wage growth, so pensioners and workers retain their same relative position. In the U.S. the starting pension for each cohort is indexed to wages but once started, benefits are indexed to prices--their purchasing power remains constant over the retirement period.

Particularly important for women is the fact that indexation pushes income to later life and redistributes to groups with above-average longevity. For any given total lifetime pension, there is a trade-off between paying a higher benefit in the early years without indexation (which means its value falls later in life) versus paying a lower benefit initially with indexation (which means the amount paid rises for the very old). Indexation protects the old-old and groups that are likely to become old-old, who are disproportionately women--and any movement away from indexation will hurt women.

## **Public policies toward private pensions**

Private pensions and retirement savings are playing an increasingly important role in old age security arrangements of the U.S. and other high and middle-income countries. Most private pension plans are now defined contribution (DC) rather than defined benefits (DB). 401k plans are DC—retirement income ultimately depends on total contributions and the investment returns they have earned. In some countries (e.g. in Sweden, Australia, many Latin American and Eastern European countries) private DC plans are mandatory, while in others (e.g. Germany, New Zealand and the U.S.) they are voluntary but encouraged through the tax system. In both cases, public regulations play an important role. Women will be better protected if: 1) annuitization (which provides longevity insurance) is encouraged, to ensure that the money will last throughout their longer retirement periods; 2) joint annuities are encouraged so the money also lasts through the lifetime of widows and widowers; and 3) the funds in the retirement account are considered community property, to be divided in case of divorce. The U.S. does well on the last count, but not on the first two; lump sum withdrawals are common and joint annuities rare.

## **What voluntary choices can women make to protect their own financial futures?**

Besides keeping an eye on public policies, women should be making their own plans to keep themselves financially and physically healthy in the years ahead. By increasing their earning power, they are protecting themselves from old age, divorce, death of a spouse and a myriad of other risks that we would rather not think about.

Women should save some of their earnings when young, using financial planning tools to project how much savings they will need to maintain their desired life style after

retirement. Most women (like most men) will find they are not saving enough. They should become more familiar with how financial markets operate, so they are better prepared to invest their voluntary savings effectively. Studies have shown that most individuals don't understand the rudiments of investing, and this is especially true of women. As our reliance on defined contribution plans like 401k's increases, it becomes crucial to understand risk-return trade-offs and how to choose the right mix. Studies show that women tend to be more risk-averse than men and therefore receive lower returns on their savings over the long run. While this is partly due to their lower incomes, it is also likely due to their lesser experience with financial markets. Women need to take an active interest in the family's investments, because they are the ones who will most need the money in old age.

Both women and men should consider working beyond the normal retirement age to increase their social security benefits further. But this is especially advantageous to women, because it gives them a higher benefit that is price-indexed and calculated on the basis of unisex longevity rates (if calculated according to women's expected lifetime, the annual benefit would be much smaller). A longer working life means they will get a higher pay-off to investments in education. It also means that employers who anticipate this are more likely to invest in on-the-job training. For both reasons, wages and pensions will rise. Working longer may help women maintain their mental acuity and stave off some of the health downsides of aging. Finally, women should take pro-active steps when young to adopt a life style—exercise, health diet, mental and social engagement--that will help keep them fit throughout their longer lifetimes.