



Building Economic Security in Retirement for **WOMEN**



DAVID M. WALKER

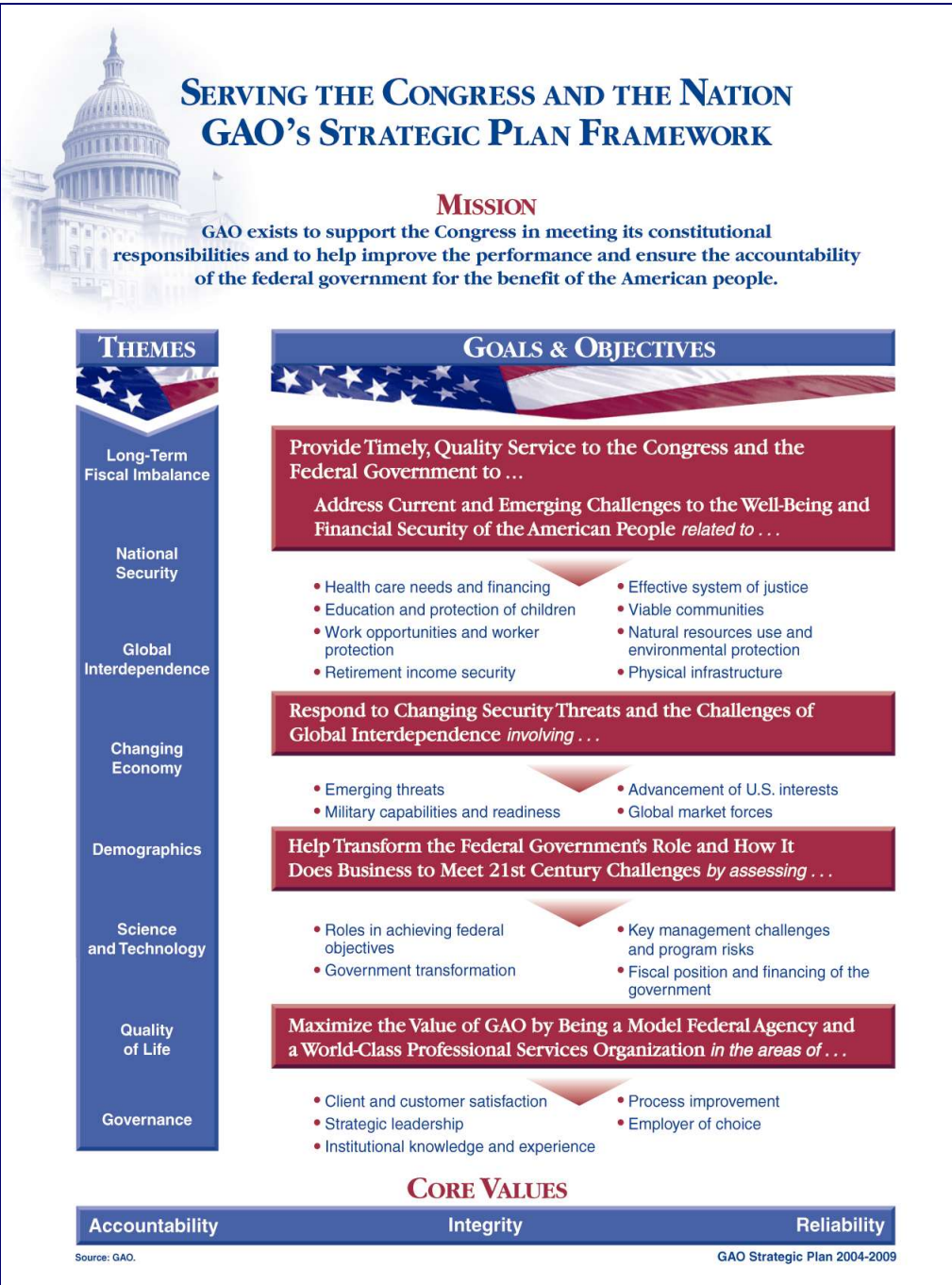
Comptroller General of the United States
United States Government Accountability Office
December 9, 2004



GAO's Role: Addressing Current and Emerging Challenges

- **GAO's Strategic Plan**
- **Selected Fiscal Exposures
and Trends**
- **21st Century Questions**

GAO's Strategic Plan

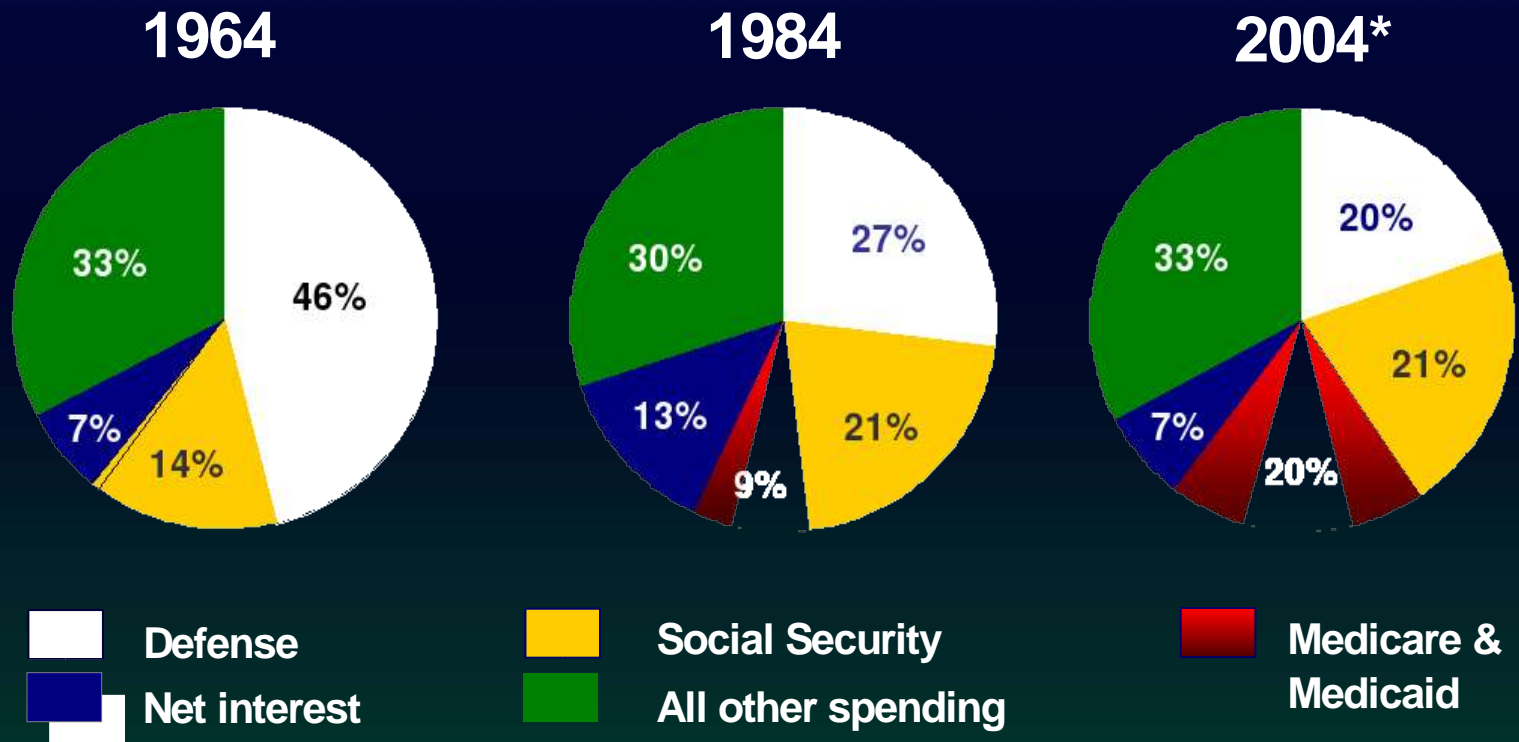


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Implications of Demographic Challenges

- **Fiscal challenges**
- **Potential adverse effects on real economic growth**
- **Potential adverse effects on overall living standards**

Composition of Federal Spending



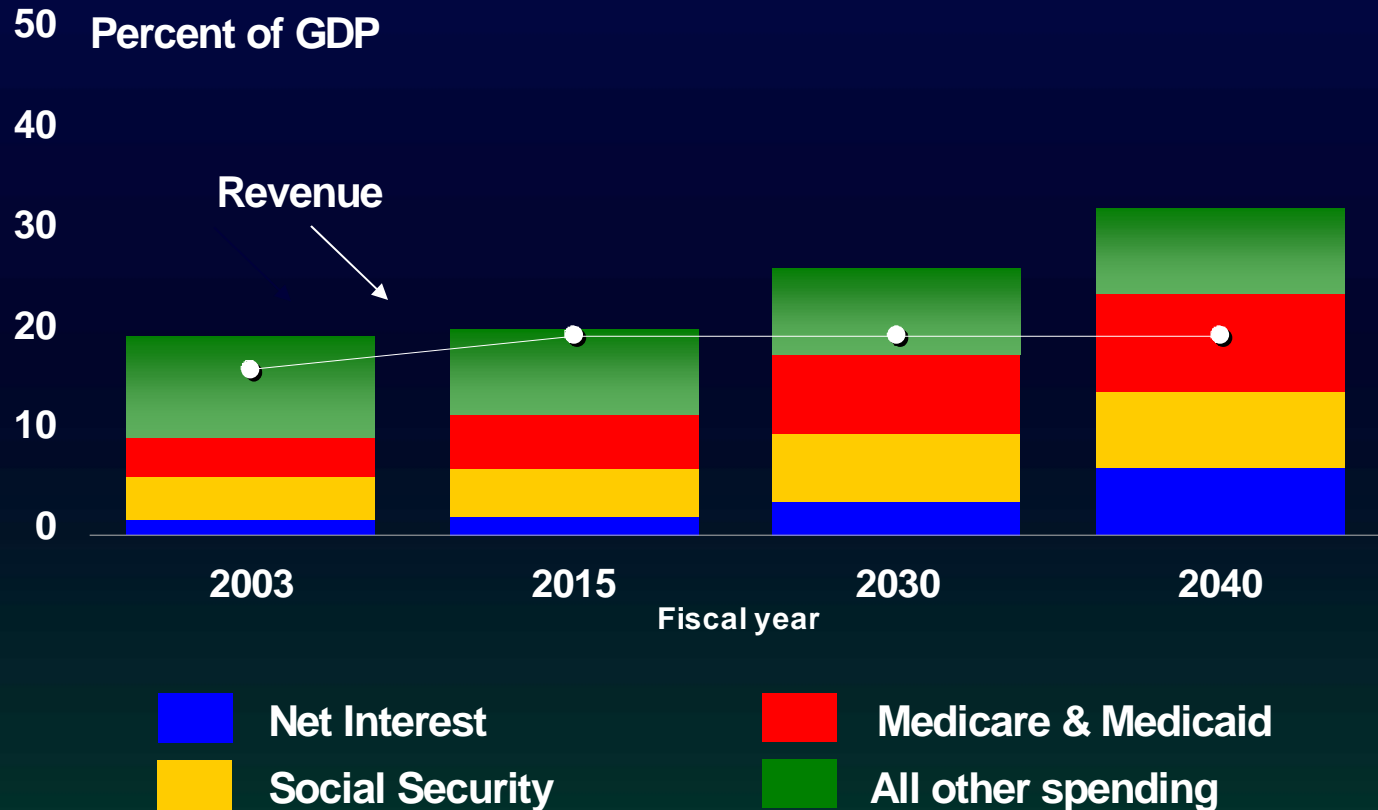
*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Composition of Spending as a Share of GDP

Under Baseline Extended

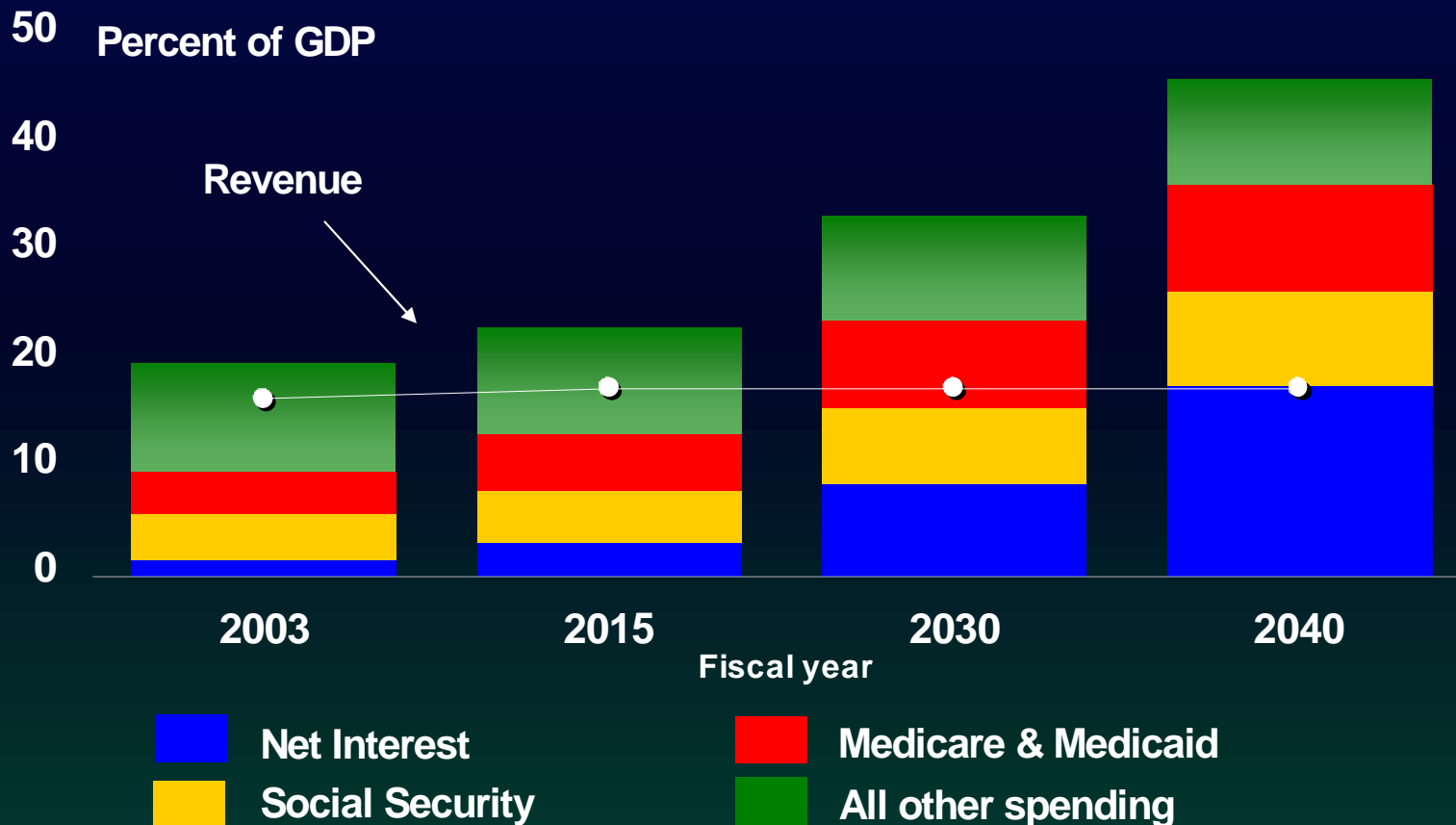


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary effects due to passage of the Working Families Tax Relief Act of 2004 are not reflected in this simulation.

Source: GAO's September 2004 analysis.

Composition of Spending as a Share of GDP

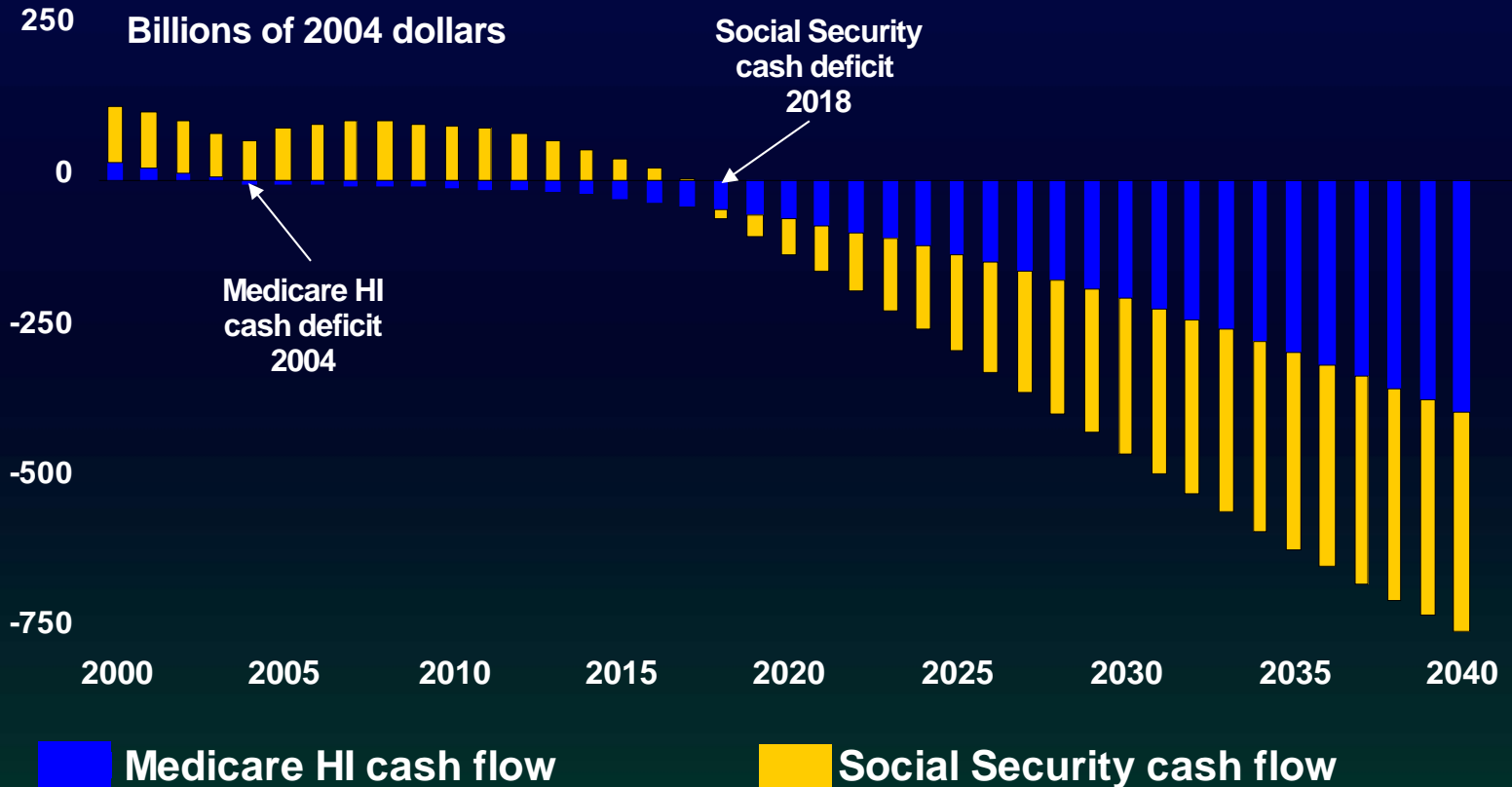
Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

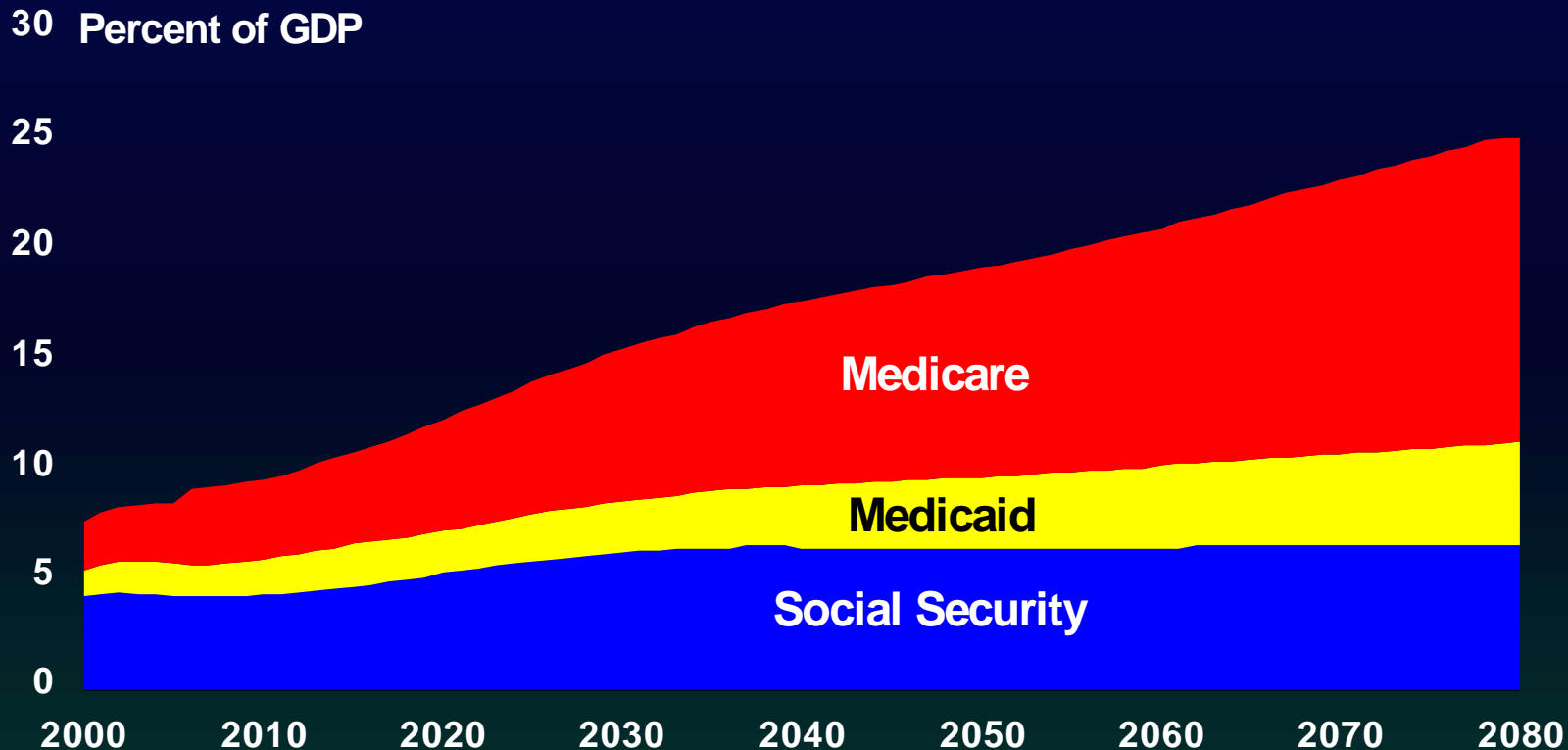
Source: GAO's September 2004 analysis.

Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits



Source: GAO analysis based on the intermediate assumptions of *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. The above excludes Medicare Part B and the newly enacted Medicare Part D benefit.

Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Note: Social Security and Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

Key Elements for Economic Security in Retirement

- **Adequate retirement income**
 - Social Security
 - Pensions
 - Savings
 - Earnings from continued employment (e.g., part-time)
- **Affordable health care**
 - Medicare
 - Retiree health care
- **Long-term care (a hybrid)**

Selected 21st Century Questions

- How should Social Security be reformed to make it both solvent and sustainable while better aligning it with 21st Century economic, demographic and fiscal realities?
- What changes should be made to existing pension laws in order to enhance the retirement income security of workers and help assure the financial integrity of the Pension Benefit Guaranty Corporation?
- How should federal programs and policies be revised to encourage people to work longer and to facilitate phased retirement approaches?

Selected 21st Century Questions

- How should our overall health care system be reformed to make it more successful and sustainable over time (e.g., focusing on certain defined needs versus unlimited wants; addressing the division of responsibilities between levels of government, employers, and individuals; and facilitating individual choice, cost control and quality improvement?)
- Which tax incentives and preferences need to be reconsidered given their costs and effects, failure to achieve goals intended by Congress, or their unintended consequences? For example, can adequate health care coverage be achieved at less cost and greater distributional equity through a fundamental redesign of the current health tax preferences, or through their elimination and the use of other means to provide **for coverage?**

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Economic Security in Retirement

Key Dimensions

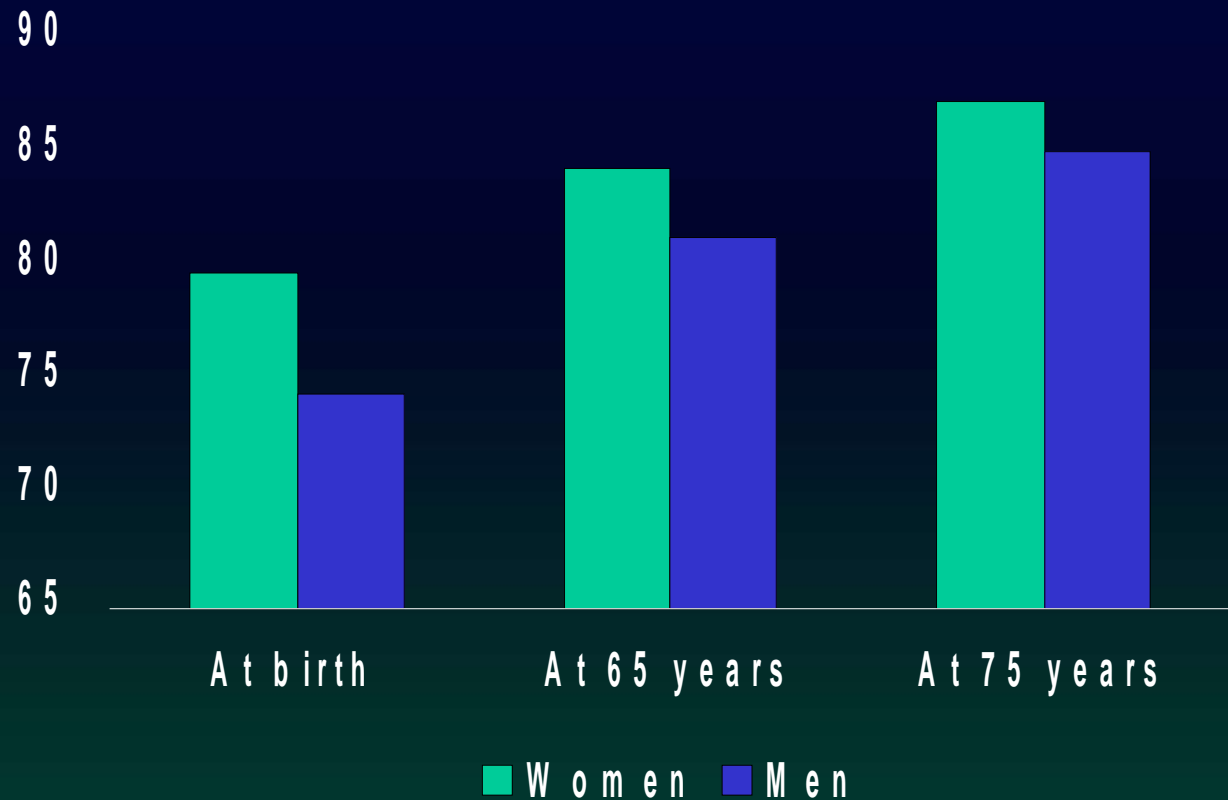
- **Major Elements**
 - Income
 - Health
 - Long-term Care
- **Major Players**
 - Individuals
 - Employers
 - Government
 - Family
 - Community



Demographic Changes Will Present Challenges for Retirement Security of Men and Women

- **Increasing life expectancy**
- **Increasing elderly dependency ratio**
- **Declining labor force growth**

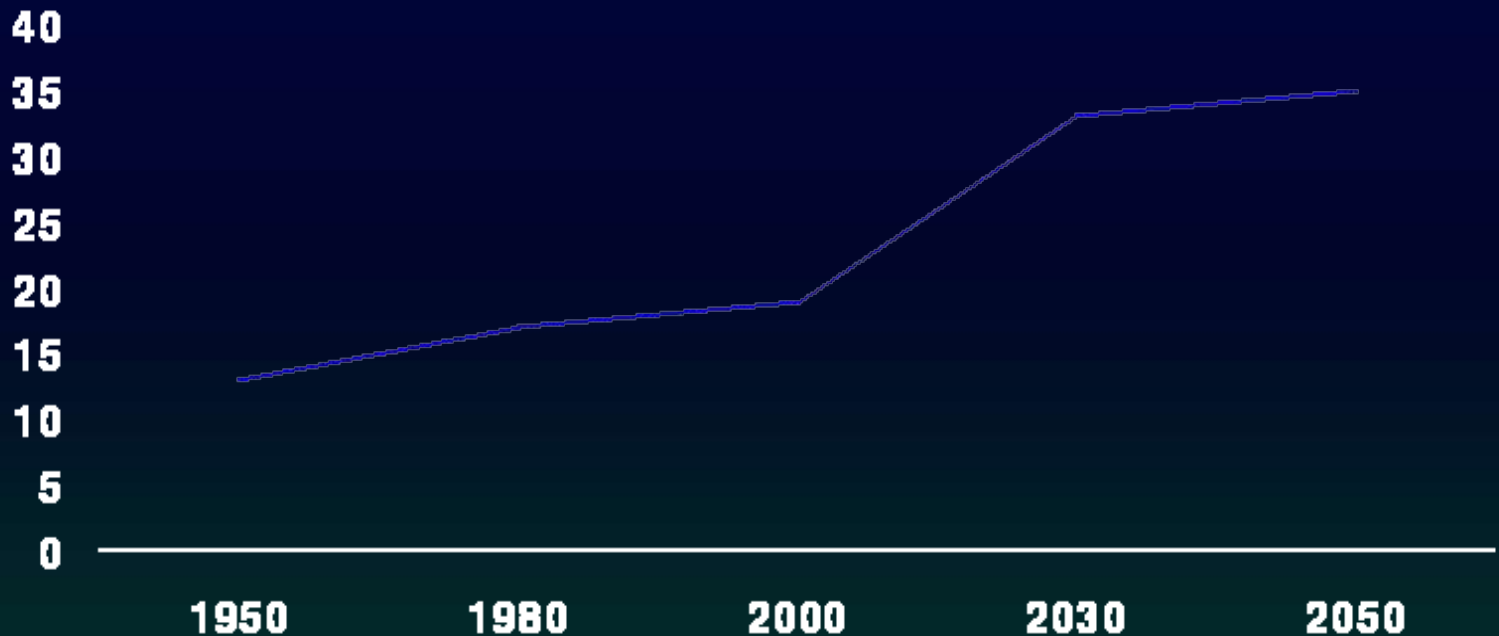
Differences in Life Expectancy of Women and Men in the United States, 2001



Source: National Center for Health Statistics, Centers for Disease Control and Prevention, U.S. Department of Health and Human Services.

U.S. Elderly Dependency Ratio Expected to Continue to Increase

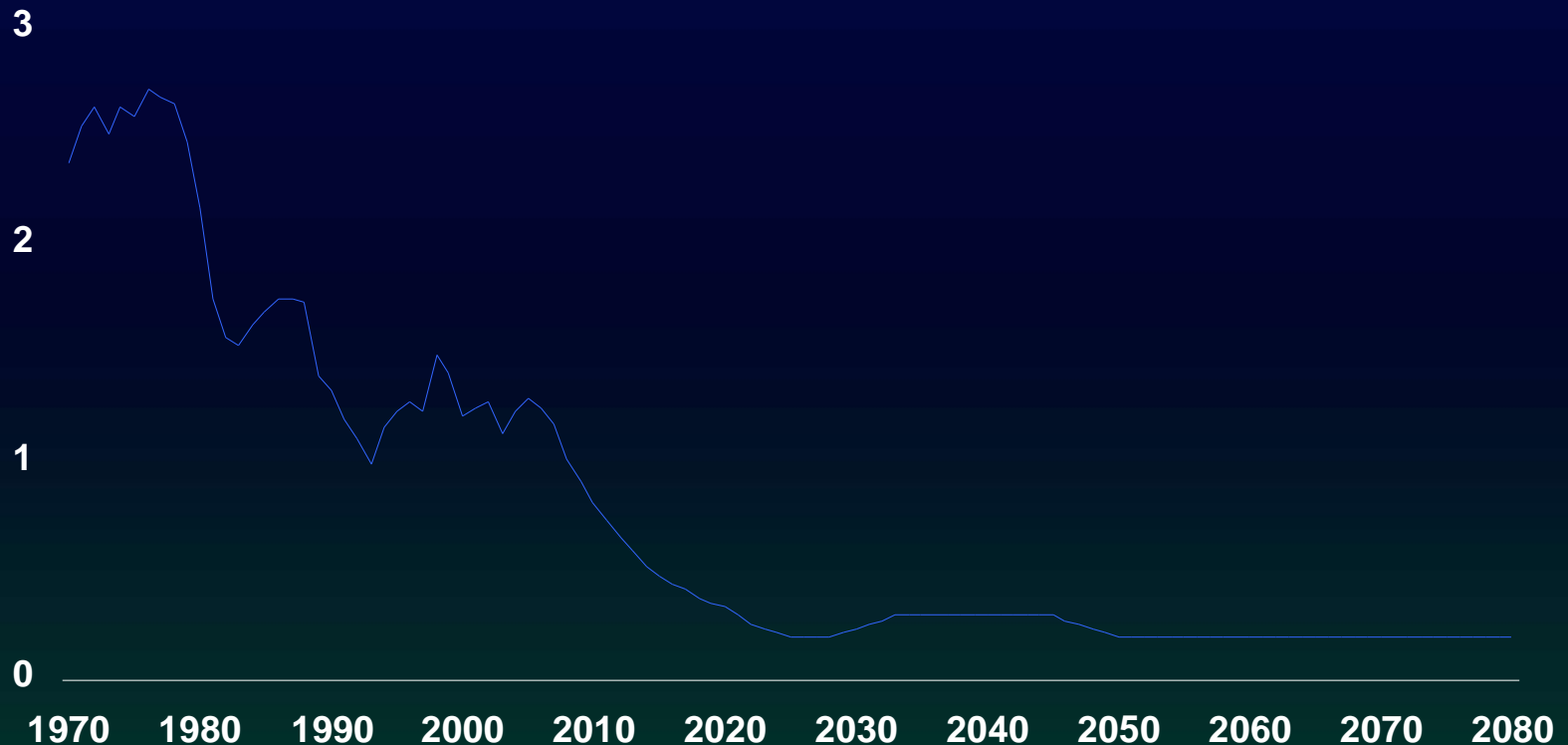
Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.

U.S. Labor Force Growth Will Continue to Decline

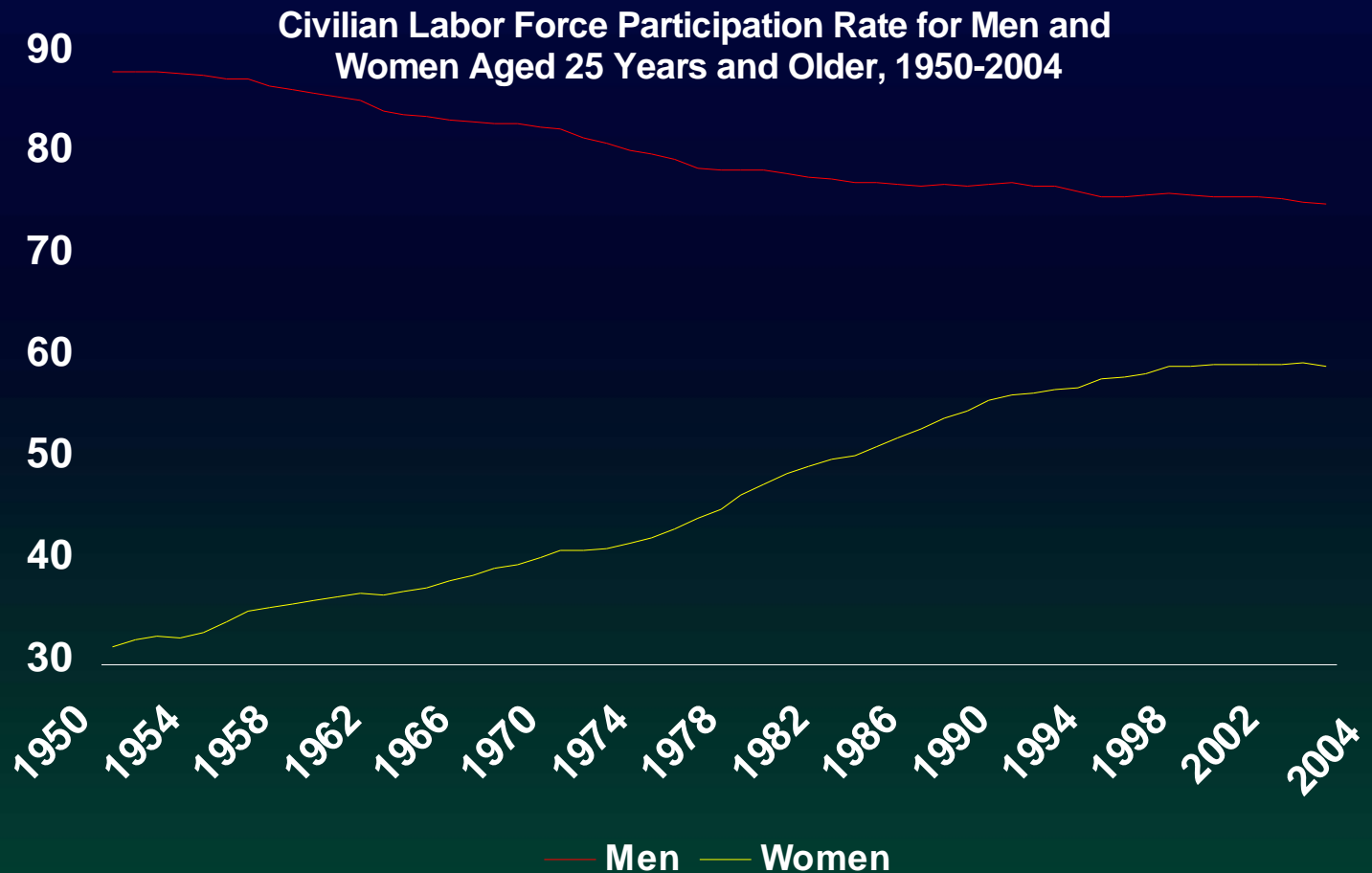
Percentage change (5-yr moving average)



Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2004 Trustees Reports.

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

The Gap in Men's and Women's Labor Force Participation Rates has Narrowed



Source: Bureau of Labor Statistics, <http://www.bls.gov/data/home.htm>

Note: annual average for 2004 is based on data from January 2004-October 2004 (seasonally adjusted)

Participation Rates in Employment-Based Retirement Plans Are Converging for Men and Women, but Only about Half Have Coverage



Source: Employee Benefit Research Institute estimates from the 1988-2004 March Current Population Surveys

On Average Women Have Lower Earnings than Men, which Affects Retirement Income

Average Total Wage and Salary Earnings for Men and Women Aged 25-65 in 2003



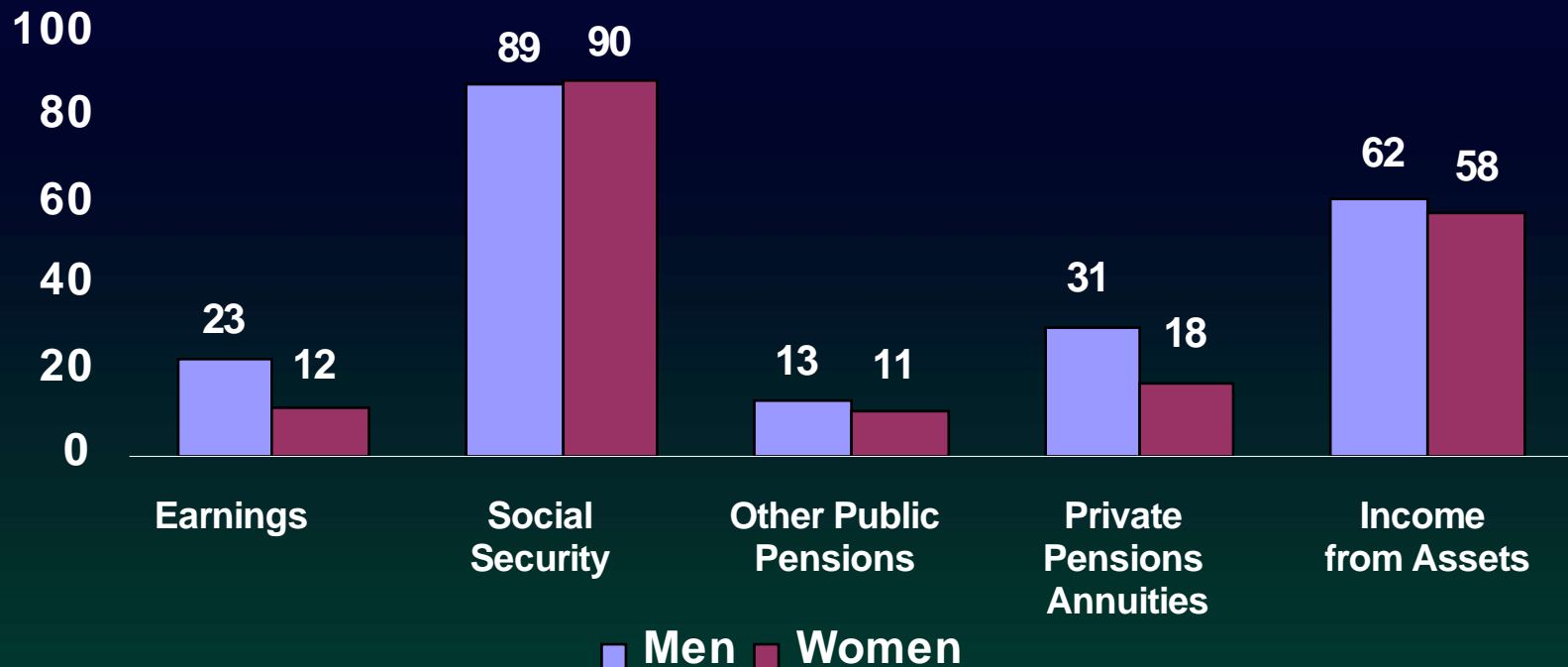
Source: GAO analysis of the 2004 March Supplement CPS

Notes: From 1983 to 2000, on average, women earned about 44% less than men.

After controlling for key factors that affect earnings, such as labor force attachment and education, GAO found that the earnings differential between men and women was still about 21% over this time period.

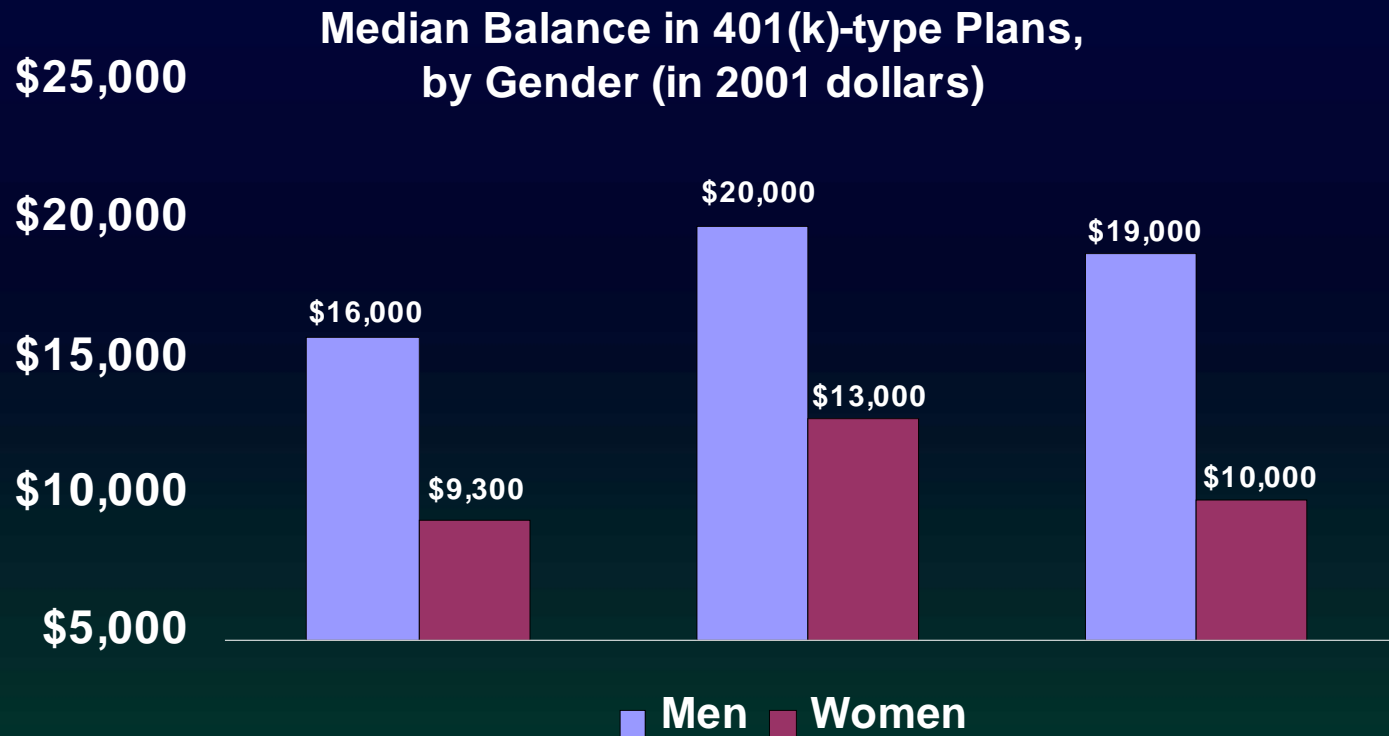
Women Are Slightly More Likely than Men to Receive Income from Social Security, but Are Less Likely to Have Income from Other Sources

Percentage of Women and Men Aged 65 and Older With Income from Specified Source



Source: Social Security Administration, "Income of the Population 55 or Older, 2000," Table 1.7, February 2002. http://www.ssa.gov/policy/docs/statcomps/income_pop55/2000/

Considerable Disparity Exists in DC Pension Wealth for Men and Women



Source: Employee Benefit Research Institute estimates of the 1996 Panel of the Survey of Income and Program Participation (SIPP) Waves 6 and 12 Topical Modules and the 2001 SIPP Wave 3 Topical Module.

Social Security Reform Elements

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects, including consideration of both funded and promised benefit levels.

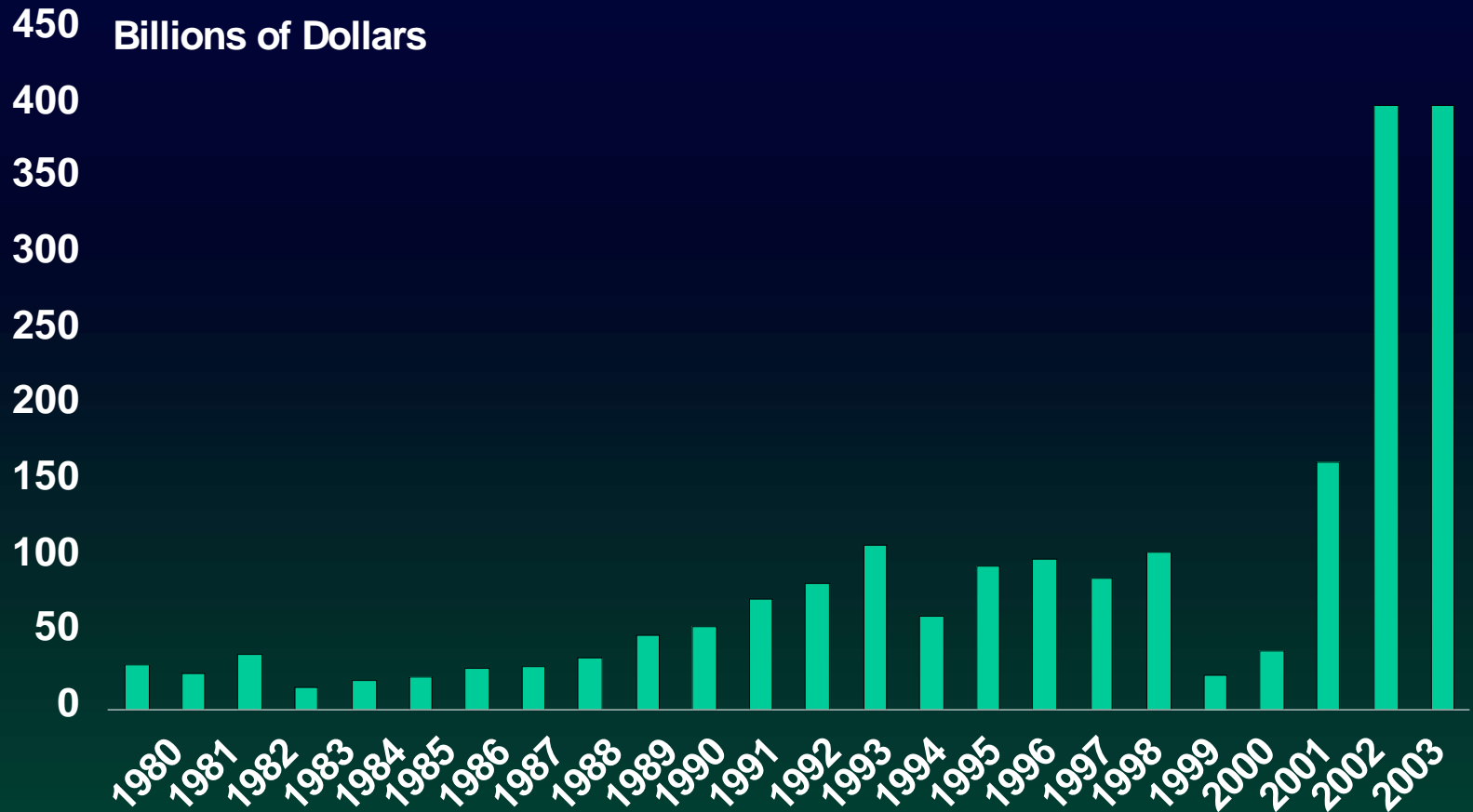
Comprehensive proposals can be evaluated against three basic criteria:

- **Financing sustainable solvency**
- **Balancing adequacy and equity in the benefits structure**
- **Implementing and administering reforms**

Pension System Faces Variety of Challenges

- Significant coverage gaps and pre-retirement leakage
- Long term decline in the number of DB plans and active participants and change in the nature of DB plans
- Recent and prospective large plan terminations by bankrupt sponsors have placed Pension Benefit Guaranty Corporation (PBGC), the federal agency insuring benefits, in financial jeopardy
 - Stock market, interest rate declines this decade have worsened overall plan funding
 - Demographics, global competition (Steel, auto) industry deregulation restructuring (airlines) have contributed to both plan and corporate weakness
- Plan funding rules have proven to be inadequate
- Certain PBGC premium insurance issues need to be reviewed
- Selected other issues also require attention (e.g., lump sums, bankruptcy laws)

Total Underfunding in Single-Employer Program Plans, 1980—2003



Several Reforms Might Improve Plan Funding and Reduce the Risks to PBGC's Long-term Viability

- Increase transparency of plan information
- Strengthen funding rules applicable to poorly funded plans
- Limit lump sums in underfunded plans
- Modify program guarantees (e.g., phase-in rules)
- Modify pension premiums (e.g., nature of risk related premiums)
- Eliminate floor/offset arrangements with significant investment concentrations in employer securities
- Modify bankruptcy laws?

DB System Weaknesses Have Serious Implications for National Retirement Policy

- **Current Issue:**
 - Protect the benefits of workers affected by terminated plans
 - Address PBGC financial exposure
 - Improve funding of DB plans generally
- **Broader Issue: what is role of DB plans in ensuring retirement security?**
 - Revitalized DB system vs smoother transition to all DC world
 - Impact of Social Security reform on the private DB and DC system and personal savings arrangements

Health Care System Key Questions

- What is the difference between health care wants, needs, affordability and sustainability?
- What is an appropriate division of responsibility between individuals, government, employers, family and others?

Health Care System Reform Elements

Incentives, Transparency, and Accountability

- Align **incentives** for providers and consumers to make prudent choices about health insurance coverages and prudent decisions about the use of medical services,
- Foster **transparency** with respect to the value and costs of care, and
- Ensure **accountability** from health plans and providers to meet standards for appropriate use and quality.



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