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Post-Recession Employment, Income, and Retirement Savings: Implications for Women's Retirement Planning

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Abstract

The purpose of this paper is to use existing, recently available statistics that highlight labor force activity, wages, and income, including the current state of retirement income, to discuss implications of these economic conditions for women's retirement planning. Data provided here are useful for discussing future directions and strategies to assist women with retirement planning; as advocates within family economics and resource management; and when working with others in their roles of employers, financial planning professionals, and Extension professionals.

Keywords

post-recession, retirement, women

Introduction

This paper uses existing statistics that highlight labor force activity, wages, and income, including the current state of retirement income, to provide the basis for discussing implications of these economic conditions for women's retirement planning. Additionally, future directions and strategies are provided for advocates within family economics and resource management and others in their roles of employers, financial planning professionals, and Extension professionals. Existing economic statistics and recommendations based on those statistics are influenced by the state of the general economy. Therefore the focus of this paper is post-recession employment, income, and retirement savings which take into account the recent Great Recession and its lingering effects.

Officially, the Great Recession began December 2007 and ended June 2009 with a duration of 18 months (National Bureau of Economic Research 2015). Data regarding post-recession measures are for 2010, 2014, and 2015. For most metrics used to determine economy recovery, as the focus of this manuscript will demonstrate, the Great Recession has officially ended and the economy has improved; however, the recovery process is ongoing.

Post-Recession employment characteristics

The U.S. Bureau of Labor Statistics is the primary general source for existing statistics regarding labor force participation and employment of both men and women. The Women's Bureau, within the U.S. Department of Labor, also provides existing statistics regarding labor force participation and employment; however, their specific focus is women. These two agencies are the primary data sources for women's employment characteristics.

In 2014, women made up 52 percent of the noninstitutional population and 47 percent of the labor force while the labor force participation rate of all women was 57 percent. In comparison, men made up 48.3 percent of the noninstitutional population and 53 percent of the labor force while the labor force participation rate of all men was 69 percent. In all age groups, except 16 to 19 years, women's labor force participation rate is less than men's. Women's labor force participation rate reached a high of 74 percent for ages 35 to 44 while men's labor force participation rate peaked at 91 percent for the same age group. The labor force participation rate of women ages 55 to 64 has increased since 1950 to 58.8 percent in 2014. The labor force participation rate of women 65 and over also increased to 15.1 percent in 2014.The labor force participation rates of men over the same time period declined to 69.9 percent and 23 percent, respectively (Women's Bureau 2014a; Women's Bureau 2014b).

In 2014, among employed individuals, a lower percent of women than men worked full-time, 74.2 and 87.3 percent, respectively. Among full-time workers, 41.6 percent were women, while among part-time workers, 66.1 percent were women. Among part-time workers, there was a greater percentage of part-time women workers (48.9 percent) than men workers (35 percent) for all age categories except women 25 to 54 years of age (Women's Bureau 2014a).

Post-Recession income

Median weekly earnings of wage- and full-time salaried workers were $719 for women and $871 for men — approximately 83 percent of men's median weekly earnings in 2014. Women's median weekly earnings are less than men's for all age groups from 16 to 65 and over, with the greatest differences during the peak earning years of 45 to 64. At the height of the wage differential, women's median weekly earnings are $780 compared to men's at $1,021; with the shortfall at $241 a week over the age range of 55 to 64, resulting in a 76 percent earnings ratio at the high point of the weekly earnings differential (Women's Bureau 2014a).

Men's median weekly earnings are greater than women's across all educational levels. Wage differentials range from 20 percent greater for those with less than a high school diploma to more than 27 percent greater for individuals with advanced degrees. Highly educated women's earnings ($1,185) are 73 percent of men's ($1,630) weekly median earnings (Women's Bureau 2014a). In 2014, median household income was $53,657. Median earnings of full-time, year-round workers were $50,383 for men and $39,621 for women, resulting in the female-to-male earnings ratio of 79 percent (DeNavas-Walt and Proctor 2015).

The Post-Recession savings and retirement income

The Economic Policy Institute's Retirement Inequality Chartbook (Morrissey and Sabadish 2013) uses 2010 data to provide the most recent retirement income information for households aged 26-79. The dollar value of 401(k) defined contribution plans is highly skewed toward high-income earners (median value equals $44,000 and mean value equals $170,859) because of disproportionately high contributions and/or earnings in defined contribution accounts of high-income earners. Additionally, there are distributional inequities in wealth/net worth that include housing values (median value equals $77,000 and mean value equals $494,916).

The percentage of households reported in the Retirement Inequality Chartbook (Morrissey and Sabadish 2013) with retirement savings accounts varies by income quintile, with 88 percent of the top fifth having retirement accounts, 52 percent of the middle fifth, and 11 percent of the bottom fifth. The corresponding mean retirement savings account amounts are $308,674 for the top fifth, $34,981 for the middle, and $7,543 for the bottom quintile; where $308,674 is 72 percent of the total of all retirement account amounts (Morrissey and Sabadish 2013).

Likewise, the percent of these households with retirement savings accounts varied by education; specifically, 70 percent of earners with a college degree or more, 41 percent with high school diploma or GED, and 17 percent with less than a high school diploma or GED had retirement savings accounts (Morrissey and Sabadish 2013). The corresponding mean retirement savings account amount by education was $181,793 for earners with a college degree or more, $30,691 for high school diploma or GED, and $6,024 for less than a high school diploma or GED (Morrissey and Sabadish 2013). Lastly, the influence of education on median net worth levels showed $193,500 in net worth for earners with a college degree or more, $56,700 for high school diploma or GED, and $16,300 for less than a high school diploma or GED (Morrissey and Sabadish 2013).

Retirement savings of Chartbook survey respondents also vary by gender and marital status, where married includes living with a partner and single includes all others. A greater percentage of married households (61 percent) had retirement account savings from defined contribution accounts than single households (36 percent). The mean value of married households' retirement accounts was $123,968, compared to $33,585 for single households (Morrissey and Sabadish 2013). The retirement account participation rate was 50 percent for married men, 47 percent for married women, 43 percent for unmarried women, and 36 percent for unmarried men (Morrissey and Sabadish 2013).

Retirement preparedness, savings and investments

The Retirement Confidence Survey (Employee Benefit Research Institute 2015a) provides 2015 survey results addressing the amount of savings that earners think they will need for retirement. The largest percentage of all earners is split, with 25 percent thinking they (and their spouse, if married) would need less than $250,000 and $500,000-$999,999 (Helman, Copeland, and VanDerhei 2015). When reported by gender and marital status, 38 percent of unmarried women is the highest portion of the population in the less than $250,000 category, with unmarried men at 27 percent. In the next category, 22 percent of unmarried men, 18 percent of unmarried women, and 18 percent married earners think they will need $250,000-$499,999 for retirement. Twenty-three percent of unmarried men, 23 percent of married earners, and 12 percent of unmarried women think the combined upper-income categories of $1,000,000-$1,500,000 or more will be needed by the time they retire. Unmarried men dominate the $1,000,000-$1,400,000 category at 13 percent, and married earners dominate the $1,500,000 or more category at 13 percent (Helman, Copeland, and VanDerhei 2015).

Four key retirement planning steps are (a) estimating the monthly income needed in retirement, (b) consulting a financial advisor, (c) calculating health care needs, and (d) having a written financial plan. Respondents in the Retirement Confidence Survey (Employee Benefit Research Institute 2015b) were asked to respond to these four questions. Married earners were the most prepared. Fifty-three (53) percent had estimated needed monthly income for the couple, 43 percent had talked with a financial advisor, 31 percent had calculated their combined need for health expenses, and 20 percent had a written financial plan. For unmarried women, the percentages were 32, 25, 16, and 8, respectively (Employee Benefit Research Institute 2015b). Among respondents of the Retirement Confidence Survey who reported current savings and investments excluding private residence and defined benefits plans, married earners' dominated the $250,000+ category at 22 percent, with unmarried men and women at 5 percent and 4 percent, respectively. Unmarried women dominated the less than $1,000 category at 44 percent, with unmarried men at 32 percent and married earners at 18 percent (Employee Benefit Research Institute 2015b).

A greater percentage of unmarried earners, including 35 percent of men and 38 percent of women, reported that Social Security and employment will be major sources of income during retirement compared to married earners at 26 percent (Employee Benefit Research Institute 2015b). Yet, among all workers only nine percent (9 percent) reported being very confident that

Social Security will continue at current benefit levels (Employee Benefit Research Institute 2015b).

The percentage distribution and mean of income sources of households in the 2010 Chartbook survey show the shift in income sources over three major age categories of social security eligible households (Morrissey and Sabadish 2013). For each of the age groups, total income and percent of income from each major source are provided in that order: 62-67 age category, $55,099 in income with 18.9 percent from other income, 13 percent from defined benefit pensions, 19 percent from Social Security, 49 percent from earnings. For those ages 68-73, $45,887 in income with 18.6 percent from other income, 17.7 percent from defined benefit pensions, 38 percent from Social Security, 25.6 percent from earnings. For those ages 74-79, $37,480 in income with 20.9 percent from other income, 20 percent from defined benefit pensions, 44.6 percent from Social Security, 14.5 percent from earnings. Clearly, percent of income from earnings declines with age, while the percent of income from Social Security increases (Morrissey and Sabadish 2013).

Social Security is an important source of retirement income. The majority (90 percent) of women and men age 65 and older receive retirement income from Social Security (U.S. Social Security Administration 2015a). “Women represent about 56 percent of all Social Security beneficiaries age 62 and older and approximately 66 percent of beneficiaries age 85 and older” (U.S. Social Security Administration 2015b, p. 1). “Social Security represents about 39 percent of the retirement income of the elderly” (U.S. Social Security Administration 2015a, p. 1). Many women are dependent on income from Social Security retirement benefits. In 2013, for unmarried women age 65 and older, 49 percent of their total retirement income was from Social Security compared to 35 percent of unmarried older men’s income and only 30 percent of older couples' income (U.S. Social Security Administration 2015b). Furthermore, 49 percent of all older unmarried women relied on Social Security for at least 90 percent of their income (U.S. Social Security Administration 2015b). However, women generally receive about 25 percent less annual Social Security retirement benefit income than men (U.S. Social Security Administration 2015b). “In 2013, the average annual amount of retirement income received from Social Security by women 65 years and older was $12,857, compared to $16,590 for men” (U.S. Social Security Administration 2015b, p.1).

In general, women have fewer retirement income sources and amounts than men. There is a sizable gender gap in all retirement income sources such as defined contribution plans, Social Security retirement benefits, pensions, and savings (Burnes and Schultz 2000). In general, women have less saved for retirement compared to men. However, when compensation differences are adjusted women tend to save a greater percentage of their income in defined contribution plans than men, 8.3 percent compared to 7.9 percent, respectively (Fidelity 2013).

Lower earnings across the life cycle combined with lower-risk taking behaviors results in women having lower average defined contribution plan balances. The average defined contribution plan balance for women is $63,700 compared to $95,800 for men (Fidelity 2013). For women, short term saving and regularly saving such as in retirement planning is negatively affected by having a low-risk tolerance (Fisher 2010).

A summary of the issues

Women have increased their labor force participation, especially among older women. This has occurred as men have decreased their labor force participation. Education increases women's income; however, even at the highest and lowest educational levels there are still disparities in earnings between men and women.

Higher income individuals and households have disproportionately greater retirement account values and net worth amounts than median income households. However, individuals and households, especially women and households headed by women, at or near the median on the three metrics of income, retirement account values, and net worth, are likely to benefit the most from retirement planning assistance. Individuals in general, and women and female headed households below the median on these measures, have reduced opportunities for retirement planning due to having fewer dollars to invest, knowledge regarding how to invest, and limited employer investment options. The amount accumulated in a defined contribution plan can be a function of income, percent of income contributed, whether contributions are voluntary or required, whether the employer matches contributions and, if a match is available, the percent of the match (Morrissey and Sabadish 2013).

For older households, in the earlier years of retirement age, earnings are an important income source. The older the individual, the greater the share of their income that is derived from Social Security. For older aged individuals, Social Security becomes the largest share of income sources—especially for older women. Pensions and defined benefit plans have been replaced, especially in private businesses, with defined contributions, 401(k), and other types of retirement plans. The responsibility for accumulation and management of funds for retirement are increasingly becoming the responsibility of the employee rather than the employer.

Women have made gains in earnings. Women's labor force participation has increased while men's has decreased. In general, better educated higher earners are the ones who have a two-earner advantage. Women, especially younger women, are catching up on wages and employment. The question is how to prepare women for retirement in terms of their overall outcome. Specifically what are the implications of what is known about women's retirement planning?

Selected existing statistics provided here are useful for discussing future directions and strategies for addressing women's retirement planning. Additionally, awareness of these sources of data provides readers with resources from which to draw further details when working with and assisting women with retirement planning.

Implications for women's retirement planning: Future directions and strategies

Fully understanding women's employment patterns, earnings, and savings behaviors is important to help create the evidence-based guidance tools and resources that they may need to successfully reach their retirement goals and improve their economic well-being. Women have made gains in earnings. Women's labor force participation has increased while men's has decreased. In 38 percent of married-couple families where the wife had earnings and in 29 percent where both are employed, women make more than their husbands. Men's labor force participation has declined somewhat over time while women's has increased. Women, especially younger women, are catching up on wages and employment (Women's Bureau 2014a: Women's Bureau 2014b).

Importantly, one strategy does not fit all women's retirement planning circumstances. It has been noted that retirement plan participation and account balances vary by age, gender, marital status, education, and income. Retirement account amounts are a function of benefit options available.

Political advocacy

Effective consumer oriented advocacy by ordinary individuals is a challenge in today's political environment. The obstructionist orientation of Congress controlled by conservatives, the power of wealthy individuals promoting their own interests through political contributions and influence; and the access and influence of lobbyists in shaping legislation are threatening middle-class, consumer oriented public policies. Additionally, it has already been demonstrated that a lack of regulation of the Wall Street investment industry destabilizes the stock market and jeopardizes the financial futures of millions of individuals, households, and families whose net worth is based on 401(k) accounts and housing values. Citizens, voters, and family and consumer scientists with a focus on family economics and resource management need to step up and start advocating for legislation and public policy that benefits the middle class, especially women and families. Recent advocacy efforts focused on gender wage equity build on the recent gains in minimum wage legislation at the state and local levels. Consumer advocates and consumer scientists have not been concentrating on the advocacy role. Education is a first step in consumer awareness of issues that affect financial planning. While educating the populace is an important initial step, implementing change that addresses concerning consumer issues and protections requires political advocacy.

Working to close the wage gap between men's and women's earnings will, hopefully, raise women's earning without reducing men's. Higher wages/income and more generous matches for defined contribution accounts will not, in and of themselves, close the large gap between men's and women's retirement accounts; yet, it is movement in the direction of improving women's financial well-being during retirement.

Individual voices must be heard. Professionally, consumer education needs to raise awareness of consumer issues through programming and publications. However, there are limits to what individuals can do within the existing system. To make a real difference individuals' active involvement in political advocacy will change the system for the long-term increased financial well-being of women, families, and middle class (median) households.

Employers' role

Employers could be proactive by evaluating how female employees are faring within their plan based on participation by age, deferral rates by age, asset allocation, and loan and withdrawal usage including default rates (Fidelity 2013). Women generally prefer to learn through human connections and personal interactions (Fidelity 2013). Employers could offer education through small group meeting such as lunch time seminars. Employers can use an automatic enrollment strategy for retirement account participation. With the automatic enrollment strategy, employees have to opt-out rather than opt-in to defined contribution retirement plans. Lastly, employers can voluntarily increase their percentage of contribution match. Employers could do all of these things, but what is their incentive to do so? What are the costs to the employer to do this? What are the benefits? Does this require a shift in thinking for the employer to become an educator in the field of financial/retirement management? More discussion here would be helpful.

Financial planning professionals' role

Everyday observation indicates that frequently professional financial planning professionals focus on the wealthy with their interest driven by opportunities to manage large investment portfolios and generate higher incomes for their professional activities. There is a need to advise women with low-risk tolerance on less risky investments that will allow them to save comfortably for retirement (Fisher 2010).

The gender differences in retirement assets and income appear to be less about women's saving habits and more about women's earnings and risk preference. As previously noted, the average employed woman earns less, so she has less money, in general, to defer to retirement accounts or to save. Yet, as shown earlier regarding preparedness, women appear to think they will need less than they will when they retire. Based on the current state of women in the economy and even though some statistics, as indicated earlier, report that women contribute a greater share of their income to savings, the bottom line is that women will need to save more, including saving an even greater percentage of their income, to overcome their aversion to investment risk, to live comfortably in retirement.

Extension's role

Land-grant institutions are frequently one of the largest employers in their respective location. Extension could use this as an opportunity within their own employment system to provide targeted retirement education based on the identified needs of female employees at their specific institution.

Certainly Extension has a role in adult education focused on evidence-based strategies tuned to the needs of clientele. In the role of providing community-based adult workshops and seminars, focused to educate and inform, the statistics and discussions made available here can be used as background information useful in programming. Through adult education women can become aware of adjustments they need to make in their employment activities and savings and investment behaviors that will improve their retirement income.

Conclusion

Women have made progress in their employment activities, income, and retirement savings; however, there is more to be accomplished. Given the metrics of the current economy, future directions and strategies provided here can prove useful in advocacy activities and evidence-based programming The trend has been for private employers to switch to defined contribution plans, 401(k) plans in the private sector, 457 plans in the public-sector, and 403(b) plans in nonprofits (Employee Benefit Research Institute 2005) that shift the responsibility for retirement saving from the employer to the employee and removes pension liability from the employer. Because defined benefit plans involve automatic inclusion and defined contribution plans may be available, but not mandatory, differences in retirement preparedness, on the part of earners, becomes a factor (Morrissey and Sabadish 2013). In the environment of defined contribution plans, the retirement saving inequity is due to high income earners being more likely to participate in defined contribution plans (Morrissey and Sabadish 2013), having more disposable income, higher risk tolerance in their investment decision-making, greater tax break opportunities, and being more likely to have access to larger matches for their contributions (Morrissey 2009). Consumer educators must work within these parameters to educate individuals, especially women, of these factors and how to accomplish effective retirement planning techniques to adequately plan for retirement.

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