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Testimony by the
Women's Institute for a Secure Retirement (WISER)
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Introduction

Chairman Shelby, Senator Sarbanes, distinguished members of the Committee, thank you for the opportunity to discuss WISER's efforts at helping women develop their financial knowledge and planning skills.

My name is Cindy Hounsell. I am president of the Women's Institute for a Secure Retirement (WISER), a nonprofit organization dedicated to ensuring the security of women's retirement income through outreach, partnerships, and policy advocacy.

WISER commends the Committee for examining the state of financial education in our country. There is ample evidence that Americans lack financial knowledge, and that financial education is an ever-growing need that requires more resources to address these challenges.

Our testimony will briefly cover the reasons women are at particular risk for economic insecurity in their retirement years. We will detail the outreach efforts of WISER and its partners to provide financial education to help women address these unique challenges. We will also cover the topics that seem to resonate most with women we reach, and issues that all Americans must become more informed on if we are to improve financial literacy—and in particular, the literacy of those who are nearing retirement age.

First, I'd like to share the story of **Hazel Shoyrer**, a lifelong worker, who would have greatly benefited from education and financial counseling to help her with the complicated financial decisions she needed to make when leaving her job. Unfortunately, Ms. Shoyrer was left on her own to figure it out —and the decisions she made when leaving her job influenced her standard of living for the rest of her life.

Ms. Shoyrer retired at age 62 from a Chicago hot dog factory after 30 years of service.[1] *Like most American workers, she took her Social Security benefit at the earliest age and likely was informed when she applied that doing so would provide her with the highest amount of lifetime benefits.*

As a modest earner throughout her working life, she was unaware of the amount of money that she would need in retirement and the critical challenge of making the money last for the rest of her life. She thought she could easily manage her modest lifestyle with a $988 a month pension and a $900 a month Social Security check. In fact, these are substantial benefits for an average worker and well above the median retirement income of $12,080 for retired women. She had also accumulated a nest egg of $5,000 which probably seemed like a sizeable amount of money.

After a year in retirement, Ms. Shoyrer took a part-time job at a truck stop. But then she was hit with what researchers refer to as a negative shock, an event which is likely to cause significant

[1] Bonnie Miller Rubin, "More Working Women Find They Can't Afford to Retire." *Chicago Tribune*, April 24, 2006. (http://www.chicagotribune.com/features/health/chi-0604240222apr24,1,6336184.story?page=2)

financial consequences. Her negative shock, pneumonia, landed her in the hospital for six days. She was discharged with a $10,000 hospital bill, and the loss of her part-time job at the truck stop. The $5,000 she had in savings quickly vanished and she is still paying off the hospital bill.

Now at age 67, Ms. Shoyrer is desperately trying to find work. She has since developed a heart problem, and though Medicare paid for a recent hospitalization, she pays hundreds of dollars a month for heart medications, supplemental insurance, and Medicare Part B coverage. As she looks down at all the bills on her table, she says, "Some days, I just want to cry. No matter how much you think you have, it's not enough."

There were a number of decisions that would have helped Ms. Shoyrer: among them, she needed to know that she would not be eligible for Medicare until she was age 65 and that taking Social Security at the earliest age would cause her to lose about 20 percent of her benefit. Ms. Shoyrer is unlikely to recover financially, and while she remains hopeful and continues to search for work, she is unlikely to find it as she ages.

Women Need to Save More Money to Avoid Poverty in Retirement

We began by using an example that unfortunately is not uncommon and because Ms. Shoyrer started retirement with nearly twice the income of most women and with access to a pension that today is only available to one out of five workers.

Women have unique retirement problems. The biggest risk is longevity, and with it, the risk of outliving assets. Women should be saving more money than men because they will need money to support themselves for about four more years than men on average. They are also more likely to have higher expenses for health care and prescription drugs. Unfortunately, women's lower average earnings and more time out of the workforce for caregiving make it difficult for many of them to save the amounts needed for retirement.

There are other reasons that make it difficult for women to save more money for retirement. Today, all workers are taking on more out-of-pocket responsibility to pay for health and retirement benefits. While women must plan for a longer retirement, they start off with less income and are left to rely too heavily on Social Security as their primary retirement income source. The increased cost of health care and retirement cannot be easily addressed by saving more for most women. Two thirds of working women earn less than $30,000, so the notion of saving more for these women is much like trying to get blood from the proverbial stone.

We know that in every age group, women on average have lower incomes than men do. But the wage gap is especially pronounced in retirement: the median retirement income in 2004 for women was $12,080 compared to men's income of $21,102.[2] Furthermore, older women are

[2] U.S. Census Bureau Statistics Division: *Housing and Household Economics.* Revised January 13, 2006.

about half as likely as older men to have earnings or pension benefits, and those women who do have these sources of income receive, on average, much less than men do.[3]

Despite the overall decline in poverty rates among older Americans during the last several decades, many older women remain poor. In 2004, 12 percent of women aged 65 and older were poor compared to seven percent of the men in this age group.[4] The likelihood of a woman being poor in retirement increases with age. Older unmarried women and minority women are especially at risk. Approximately one in five unmarried elderly women is poor.[5] The poverty rate for single black women over age 65 is 40.8 percent, and for single Hispanic women it is 41.5 percent—more than twice the rate of white women.[6] (In 2004 the poverty threshold for an individual age 65 and older was $9,060.)

The current generation of elderly women has little in the way of savings and investments for their retirement. In fact, half of all unmarried older women have less than $1,278 a year in asset income, which amounts to only about $106 a month.[7] Older minority households have even less than white households: one survey found that older black households had an estimated net worth of $13,000 compared with $181,000 for white households.[8]

It is startling to be reminded that the vulnerable population of those living past age 80 is expected to double and possibly triple over the next few decades. The demographics of older Americans points to the importance of women's retirement security:

- At 65 and older, there are 6.2 million more women than men.
- At ages 75 and older, there are 4 million more women than men.
- At 85 and older, there are 1.8 million more women than men. This amounts to 71 percent of the 85 and older population.[9]

Financial Education

All Americans are being asked to assume a larger share of responsibility for making complex retirement saving decisions. But the thousands of pages available on the Internet, conflicting and often poor advice from families and colleagues, and quote "education" from marketers of financial products and services seem to create more confusion and inertia than action. The avalanche of information and the complexities involved in retirement planning especially are significant barriers to workers to protect themselves from economic insecurity.

[3] Social Security Administration: *Income of Population 55 or Older, 2002.* March 2005.
[4] U.S. Census Bureau: *2005 Annual Social and Economic Supplement.* Current Population Survey. June 2005.
[5] Ibid.
[6] Ibid.
[7] Social Security Administration 2002.
[8] Federal Interagency on Aging Related Statistics 2000.
[9] He, Wan, Manisha Sengupta, Victoria A. Velkoff , and Kimberly A. DeBarros: U.S. Census Bureau, Current Population Reports, P23-209, *65+ in the United States: 2005,* U.S. Government Printing Office, Washington, DC, 2005.

Aside from the overwhelming quantity of information, financial literacy is impaired by language that many people just don't get. Just think about some of the terms that are part of the financial planning lingo: we have MMA's ,CD's, DB's, DC's, IRA's, annuities, low loads, no loads, 12b1 fees, vesting. To reach people—to have them hear the message and turn it into action—we need to take a step back from all the jargon and give people basic, usable information. Otherwise, we will continue to see people tune out or throw their hands in the air and walk away from the responsibility.

The Treasury report that Secretary Snowe discussed earlier on the national strategy for financial literacy refers to the "national mosaic that comprises America's financial literacy and education effort."[10] I think *mosaic* is a generous description. It is more like a giant jigsaw puzzle that's missing the box that shows the picture the pieces are supposed to form. It is laudable that the Bush Administration has set a course to develop a national strategy for financial literacy.

What People Need to Learn

Research has shown what WISER's experiences with financial education outreach have borne out—that people need better guidance for decision-making about determining when to retire, how much spendable income will be needed, where the money will come from, and how to make it last. We have noticed that, like our earlier example of Hazel Shoyrer, many people make the mistake of retiring early—reducing their pension and Social Security benefits without having considered the future costs of medical insurance and prescription drugs.

But we have also learned that we have to help people put this information in context because they are hearing a lot of conflicting advice. At a recent briefing of financial experts recapping the 2006 SAVER Summit, there was a brief discussion of what multiplier should be used times final pay to ensure sufficient income in retirement—the multiplier number recommended by the financial experts ranged from four to 22. Ask three experts whether you should pay off your home mortgage and you are likely to get three different answers.

Workers should be given a "retirement readiness" program or test before they retire. There is a readiness survey being designed for testing with the Office of Personnel Management by the International Foundation of Retirement Education. This survey for government workers will help determine whether they will have enough income to retire and to understand the issues before they make their decisions to leave a job. While this may not translate as well into the private sector, it does indicate a promising means to help people gain an understanding of current resources.

[10] U.S. Department of the Treasury: *Taking Ownership of the Future: The National Strategy for Financial Literacy*. Financial Literacy and Education Commission. 2006.

We find that many people are ill-prepared to make what we term life-defining decisions. Many people make retirement decisions based on the fact that they want to stop working or they get forced into it. But a key factor to consider before retiring is the likelihood of living 20 or more years—years during which purchasing power may be lost with inflation and more income is needed for chronic medical needs. Nearly every retiree I have come into contact with over the past two decades tells me two things: they had no idea they would live so long, and they wished they had saved more money.

A recent report, "Public Misperceptions about Retirement Security," identifies areas of concern with regard to public knowledge about retirement.[11] Some of the issues highlighted in this report include the following:

- Longevity risk is poorly understood and not planned for.
- More than 40 percent of Americans end up retiring earlier than they planned to retire, usually due to job loss, family needs including health issues, or personal poor health.
- Many people do not understand how investments work. For example, they do not understand what a money market fund is.
- A substantial number of people believe that the common stock of their employer is less risky than a diversified portfolio of common stocks.
- Many people do not save enough, and they do not estimate their needs well.
- Many people fail to consider the impact of future inflation.

The impact of these misperceptions is compounded by the increased responsibility taken on by millions of workers for their own retirement preparedness. In a dramatic display of the individual and broader consequences of low financial literacy, it has been reported that the state of Nebraska recently dropped its 401(k)-style plan because it found that individuals' investment decisions were unwise, resulting in a waste of taxpayer contributions to those plans. Indeed, a 2005 study by Standard & Poor's found that, as a result of poor investment practices, a switch by public employers to 401(k) plans might lead to "lower pension contribution costs over the medium term, but could end up with higher public assistance costs in the long term."[12]

WISER's Program on Women's Education for Retirement

One of WISER's key initiatives is the National Women's Resource Center and Program on Women's Education for Retirement, also known as the POWERCenter. The Center is dedicated to helping women plan for the future and provides average women with a place to turn for basic financial education.

This initiative began as a cooperative project funded by the U.S. Administration on Aging in 1998. The program includes many partners—employers, women's organizations and community

[11] Society of Actuaries, LIMRA International, Inc, Mathew Greenwald & Associates: *Public Misperceptions about Retirement Security*. 2005.
[12] American Federation of State, County and Municipal Employees: *Myths and Facts*. March/April 2006. (http://www.afscme.org/publications/public_employee/2006/pema0607.htm)

based groups. Government agency partners have included the Department of Agriculture's Cooperative Extension Service, the Department of Labor's Women's Bureau, and the Social Security Administration. We have directly reached more than 25,000 women through our own workshops and millions through our publications published in *Good Housekeeping Magazine* and the *US Airways* in-flight magazine. Our organizational partners include Mothers' Voices Georgia, MANA, A National Latina Organization, N4A – the National Association of Area Agencies on Aging, the General Federation of Women's Clubs, and Business & Professional Women-USA. Our partners have helped us to train trainers and reach tens of thousands more women. WISER also works with several insurance and financial companies who help spread our message and disseminate our material. WISER's staff has published booklets with the Actuarial Foundation, including our most popular, *Seven Life-Defining Financial Decisions.*

The PowerCenter's primary objectives are to:

1. Ensure that the material and program is flexible enough to reach women in their communities, their jobs and their places of worship;
2. Encourage women to take an active role in planning for their future;
3. Reach the maximum number of average- and lower-income women with information;
4. Create an awareness of retirement basics, pensions savings plans, and the Social Security program, to help motivate women to plan early by stretching and managing their resources and increasing their retirement income;
5. Help older women protect their income by educating them about the types of insurance and related products that can help make their money last for a lifetime, as well as avoiding consumer fraud, financial schemes, and predatory scams; and
6. Help women in crisis situations, such as caregiving for elderly parents and spouses, and with the financial issues resulting from death and divorce.

WISER's POWERCenter workshop, "Your Future Paycheck®," hits home with diverse audiences. It provides practical knowledge by interweaving substantive information with case histories of women who have worked and cared for their families their entire lives. Participants identify with the situational problems and remember the solutions and make retirement savings a priority.

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

We have found that workshop participants are most interested in:

- Learning how it all fits together—a basic lifetime financial journey;
- Practical suggestions for women with children who must prepare for gaps in employment, lower wages, and fewer benefits;
- Access to employer savings plans and techniques for saving on one's own;

- Credit problems, credit repair, and debt reduction;
- First-time home ownership programs and Individual Development Accounts;
- Types of insurance and annuities;
- Social Security as a retirement program and as a program that provides survivor benefits to children and disability benefits; and
- Predatory lending scams.

More Meaningful Outreach Is Needed

As the Treasury report and other analysis shows, there is a lot more financial education happening now than in prior years, but not enough people are being reached, and not enough behavioral change is occurring to have a meaningful effect on retirement income insecurity. Much more meaningful outreach is needed, including:

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

We would like to mention a successful initiative that was based in part on the Individual Development Account model to structure a matched retirement savings program.[13] WISER worked with Appalachian By Design to create a savings program for self-employed knitters in rural West Virginia. Appalachian By Design is a nonprofit economic development company dedicated to finding markets and training a network of knitters in rural areas of the state. To make a long story about a complicated journey short, our program turned a small group of low-income women into first-time savers. Mr. Chairman, more than half of full-time working women in West Virginia earn less than $20,000 a year. To get a subset of these women saving for retirement is proof that a combination of the opportunity, the information, and an incentive to save can work to get even the hardest-pressed workers preparing for retirement.

Conclusion

Mr. Chairman, thank you for including women's issues in retirement as part of the broader discussion on financial education today. As I hope my testimony has pointed out, women are at a particularly high risk for poverty in retirement, and more education is needed to help them avoid

[13] See "Crafting a Retirement Plan for Appalachian Artisans." Appalachian By Design. 2004. (http://www.appalachianbabydesign.org/docs/Retirement%20Report%20April%202004.pdf)

this outcome. WISER has learned first-hand that women without financial knowledge are eager to gain and apply it, and take greater control of their financial lives. The federal and state governments, non-profits, employers and others need to continue seeing financial education as an imperative, and to continue finding ways to help people achieve financial stability.

Thank you. I welcome your questions.