

Mom's Retirement Security

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This report was written by Catherine Hill, AAUW Educational Foundation interim director of research, and edited by Susan K. Dyer, AAUW senior editor. The telephone survey was conducted by Lake Research Partners.



We can never repay our mothers, but we can try to ensure that they are financially secure throughout their lifetimes. What kind of retirement can mothers expect? What do retired moms count on to make ends meet, and what are the prospects for those wishing to retire soon?

In the not-too-distant past, most people relied on their families when they were too old to work. Americans today can retire with more independence and security, in large part thanks to Social Security. Do Americans appreciate the importance of Social Security to modern retirement?

The American Association of University Women Educational Foundation took a look at this question in March 2006 by asking adult children about the financial security of their mothers (see Methodology). The results of this survey suggest that among adult children whose mothers are 65 or older, the importance of Social Security is well understood. Among those whose mothers have not yet reached retirement age, however, the importance of Social Security is not fully appreciated. In terms of their own retirement, Americans do not appear to be fully aware of the significance of Social Security.

In this brief, AAUW presents what adult children believe about the sources of retirement income for their mothers and for themselves. These perceptions are then contrasted with evidence from leading experts in the field of older women's economics—evidence showing that some adults underestimate the importance of Social Security to their mothers' and their own retirement security. The brief concludes with a call for political action to preserve Social Security for our mothers'—and our own—retirement security.

A majority of adult children say they are familiar with mom's financial situation and cautiously optimistic about her retirement security.

Six in 10 (60 percent) adult children say they know "a lot" (39 percent) or "some" (21 percent) about mom's financial situation. About

40 percent say they know a little (19 percent) or nothing (19 percent).

Opinion is mixed regarding mom's retirement security. Among those with mothers 65 or older, adult children rate mom's financial security as above average (a mean of 6 on a 10-point scale). Roughly four in 10 (40 percent) believe their mothers are very secure (ratings of 8 to 10), while 14 percent fall on the other side of the spectrum (ratings of 0 to 2) and 40 percent are somewhere in the middle (ratings of 3 to 7).

Adults with mothers under age 65 also rate mom's future financial security as above average (a mean of 6). Three in ten (30 percent) predict that their mothers will be very financially secure (ratings of 8 to 10), 12 percent predict a lack of financial security (ratings of 0 to 2), and about one-half (51 percent) are somewhere in the middle (ratings of 3 to 7).

Women (45 percent) are more likely than men (34 percent) to say they know a lot about mom's financial circumstances. Men (24 percent) are more likely than women (13 percent) to say they know nothing.

Among adult children whose mothers are 65 or older, only a small number (6 percent) financially provide for mom. Among those whose mothers have not yet reached retirement age, slightly less than one-fifth of adult children (17 percent) believe that they will provide financial support to mom when she retires.

Adult children whose mothers are 65 or older say that Social Security is mom's most important source of retirement income, but children with younger mothers believe that pensions or 401(k) accounts will be equally important.

Adults with mothers 65 or older identify Social Security as mom's top source of income. One-third (34 percent) say it is the largest source of income, and about one-half (53 percent) say it is either the largest or second-largest source.

Pension and 401(k) income ranks second (21 percent of respondents say largest source and 32 percent say largest or second-largest), followed by income from personal savings (9 percent and 21 percent), other income (7 percent and 14 percent), and employment earnings (6 percent and 13 percent). Few believe that mom relies mostly on government programs other than Social Security (3 percent and 8 percent) or financial assistance from children (1 percent and 6 percent).

Adult children whose mothers have not yet reached retirement age rank pensions and 401(k) income equally with Social Security. One-quarter (26 percent) say pensions and 401(k) income will be mom's greatest source of income (37 percent say largest or second-largest source), and 23 percent identify Social Security as the greatest source (41 percent say largest or second-largest).

For themselves, adult children expect pensions and 401(k) accounts, rather than Social Security, to be their main source of retirement income.

About one-third (34 percent) of respondents identify pensions and 401(k) income as their largest source, and one-half (51 percent) say pensions and 401(k) accounts will be their first or second-largest source. They rank Social Security considerably lower, with only 15 percent predicting that it will be their primary source and about one-third (34 percent) predicting that it will be their first or second source. Adult children believe they will also rely on their employment earnings (18 percent say largest source and 29 percent say largest or second-largest) and income from personal savings (13 percent and 31 percent). Few believe they will count on a spouse's employment earnings (5 percent), other income (4 percent), other government programs (2 percent), or financial assistance from children (1 percent) as the largest source of retirement income.

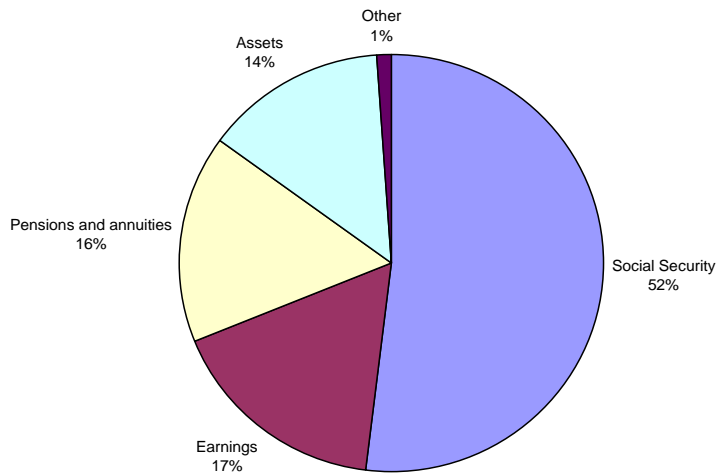
Social Security is the largest source of income for older women and is expected to remain so.

The vast majority of older women (90 percent) receive Social Security, and for most of them, it is the largest source of income. Overall, Social Security is more than one-half (52 percent) of the income of women 65 and older. Pensions and annuities, assets, and earnings together make up the remainder (see Figure 1).

Social Security benefits will be somewhat less generous in the future; however, experts agree that Social Security will remain the largest source of retirement income for most retirees, especially women on their own (Munnell, 2003). Social Security will be especially important for low- and moderate-income seniors and for the oldest seniors (Hartmann and Lee, 2003, p. 6).

Experts say pensions (including 401(k)-type pensions) will become increasingly important sources of retirement income, but they are unlikely to overtake Social Security, especially for lower-income retirees (Munnell, 2003; McDonnell, 2006). Because workers can withdraw funds from 401(k) accounts for certain uses before retirement, this source of retirement income can be less reliable. Furthermore, savings rates for Americans are not impressive. For example, the typical balance in 401(k) accounts was less than \$20,000 in 2004 (Employee Benefit Research Institute, 2005). In addition, only about one-half of the work force participates in workplace pension programs at any one time, and many workers contribute intermittently as they switch jobs or take time out of the work force. Because women are more likely to work part time or take time out of the work force to care for children or other relatives, a sizeable gender gap in pension income is expected for the foreseeable future (Shaw and Hill, 2002).

Figure 1. Average Annual Income for Women Ages 65 and Older, by Source (in Aggregate), 2004



Source: McDonnell, 2006. Data from the Employee Benefit Research Institute's tabulation from the March 2005 Current Population Survey.

Note: The category "other" includes public assistance, Supplemental Security Income, and regular financial assistance from friends or relatives not living in the individual's household.

Women are more likely than men to spend their retirement years alone and in poverty.

Women are at a distinct disadvantage when it comes to financial security in retirement. Those 65 and older (20 percent) are nearly twice as likely as men in this age group (12 percent) to be poor or near poor (ibid., 2002).¹

Median household income for women 65 and older is a little more than half that of men in this age group (AARP Public Policy Institute, 2005). Differences in marital status and living arrangements exacerbate the retirement income gap. Because women tend to marry older men and

¹ The poverty line was at or less than \$9,570 for a household of one person and \$12,830 for a household of two people in 2005. The poverty line is set lower at \$8,825 for an individual age 65 or older and \$11,122 for a couple with at least one person age 65 or older (*Federal Register*, 70(33), 8373–8375, February 18, 2005). Near poverty is defined as between 101 and 125 percent of the poverty line.

because women live, on average, about three years longer than men do, women are more than twice as likely to spend their retirement years unmarried and living alone (Hartmann and Lee, 2003, p. 4).

Despite the fact that women today are having longer and more lucrative careers, the gender gap in retirement income is expected to continue through 2020 and beyond, in part because more women are expected to enter retirement divorced or never married (Toder, Thompson, Favreault, Johnson, Perese, Ratcliffe, et al., 2002; Favreault 2005). Furthermore, because women typically earn less than men earn, women can expect to receive lower Social Security and pension benefits, which are based on earnings.

Nevertheless, because women's savings and pension will be smaller than men's, Social Security will remain the main source of income for the vast majority of older women.

Social Security is here to stay.

Unlike most government programs, Social Security has large trust funds to ensure that it can pay promised benefits. The trust funds will receive income of \$741 billion and pay expenses (primarily benefits) of \$564 billion in 2006, adding a surplus of \$177 billion to the trusts. By the end of 2006, the value of the trust funds is estimated to be \$2,035 billion. According to the Social Security trustees' report, Social Security can pay all benefits up to 2040 without any changes to tax or benefits rates (National Academy of Social Insurance, 2006). After that, the program is still able to pay a higher benefit (in today's dollars) than retirees currently receive.

What You Can Do

Defenders of Social Security recently thwarted privatization plans, but the threat is not over.

President George W. Bush's fiscal year 2007 budget includes a plan for partially privatizing Social Security. This proposal would substantially reduce Social Security benefits and significantly increase the national debt. It would also cut back the system's social insurance benefits, which are particularly critical to women.

Individual retirement accounts in addition to Social Security are a good idea, and many people already use IRAs as part of their retirement portfolios. New federal incentive programs to encourage private retirement savings accounts should not, however, come at the expense of Social Security. Motherhood may last a lifetime, but mothers should be able to retire with dignity.

Visit www.aauw.org for ideas on how you can help defend Social Security and protect your mother's—and your own—retirement security.

Methodology

AAUW commissioned Lake Research Partners to conduct a survey of adult children's perceptions of the retirement security of their mothers. Lake Research Partners added the requested questions to an omnibus phone survey of 1,015 adults (507 women and 508 men) 18 and older living in the continental United States. Interviews were conducted from March 16 to March 19, 2006.

About one-third (36 percent) of respondents said that their mothers are deceased, and a small number refused to answer the questions, resulting in a base of 566 respondents (263 women and 303 men) for questions regarding the financial status of their mothers. The margin of error for the questions regarding respondents' knowledge of the financial situation of their mothers is +/- 3.9 percent. The unweighted base for those whose mothers are 65 or older is 323 respon-

dents (157 women and 166 men), and the margin of error is +/- 5.9 percent. The unweighted base for those whose mothers are 64 or younger is 243 respondents (106 women and 137 men), and the margin of error is +/- 5.2 percent. The unweighted base for the question regarding the financial relationship between respondents and their mothers was 578 respondents (265 women and 313 men), and the margin of error is +/- 3.4 percent.

Eight hundred respondents (383 women and 417 men) ages 64 or younger answered the question regarding sources of income for their own retirement. The margin of error for this question is +/- 3.4 percent.

A copy of the questionnaire is available upon request.

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The AAUW Educational Foundation provides funds to advance education, research, and self-development for women and to foster equity and positive societal change.

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