

# Research-in-Brief

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## The Gender Gap in Pension Coverage: Women Working Full-Time Are Catching Up, But Part-Time Workers Have Been Left Behind

By Lois Shaw, Ph.D., and Catherine Hill, Ph.D.

This Research-in-Brief summarizes key findings of the IWPR report *The Gender Gap in Pension Coverage: What Does the Future Hold?* by Dr. Lois Shaw and Dr. Catherine Hill (IWPR Publication #E507, April 2001).

The good news is that women are participating in pension plans in greater numbers than ever before. Based on data from the Pension Topical Module of the Survey of Income and Program Participation collected in 1995 by the Bureau of Census, IWPR found that 60 percent of full-time female workers participate in a pension plan, compared with 62 percent of full-time male workers. But bad news still abounds:

- Part-time workers, who are disproportionately women, remain much less likely to participate in an employer-sponsored pension plan. Less than one-third of part-time workers participate in a pension plan. The largest difference between female and male employees occurs for older workers (aged 45-64), with 35 percent of women saying they work too few hours to participate in their company's plan compared with 20 percent of men.
- Older female employees are less likely than older male employees to expect to have a pension in retirement from any source; 36 percent of men lack a pension from any employer compared with 44 percent of female employees.
- Women are less likely than men to re-invest a "lump sum" payment of a pension received when leaving a job. While using the funds to pay bills, invest in their children's education, or buy a car may seem reasonable, such practices do not bode well for the economic security of future generations of older women.

### The Gender Gap in Pension Income Among Retirees

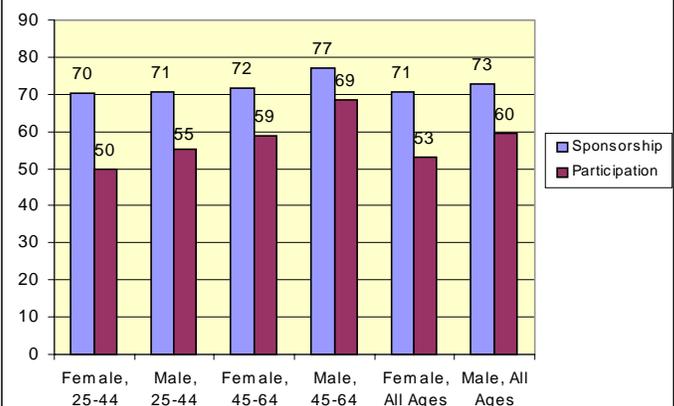
Older women enter retirement with fewer economic resources than men. For example, in 1998, the median income for an unmarried woman age 65 and older was \$11,382 compared with \$14,496 for an unmarried man age 65 and older; for a married household where the head of household was 65 or older, the median income was \$30,176 (Social Security Administration 2000). The gap between men's and women's income from pensions is especially wide. Women are only about

half as likely as men to receive income from pensions (including income from a spouse's pension). In 1998, 47 percent of men received income from a public or private pension compared with 27 percent of women (Social Security Administration 2000: 23-24). Among those who receive income from pensions, women's benefits are only about half as large as those of men (Johnson 1999).

### Participation in Employer Pension Plans Among Workers Today

Women today are working in the paid labor force in greater numbers and for longer periods of time than ever before, so we would expect that women would be making progress toward closing the pension gap. This study finds, however, that a gap in pension participation persists, albeit smaller than the gap in pension receipt among retired men and women. Overall, 53 percent of female employees and 60 percent of male employees participate in employer-sponsored pension plans (see Figure 1). The gap in pension coverage among

Figure 1: Percentage of Workers Who Work for an Employer Who Sponsors a Pension Plan Compared with the Percentage of Workers Enrolled in a Pension Plan



Note: Data on pension sponsorship and participation include 401(k) or thrift savings plans as "pensions."

women and men, however, is significantly larger than the gap between male and female workers. At any one time, close to 30 percent of women (ages 25-64) are not employed compared with only 15 percent of men (ages 25-64). When we include this population, the gap in pension coverage widens to an estimated 38 percent of women participating in a pension plan compared with 51 percent of men.

### Why Workers Don't Participate in a Pension Plan

The most common reason for not participating in a pension plan is that the employer does not offer one. Slightly fewer than 30 percent of employees worked for an employer who does not offer a pension plan or a retirement savings plan such as a 401(k) or thrift savings plan. Among both male and female workers whose employers do sponsor a pension plan, not having worked for the employer for a sufficient period of time was the most frequently cited reason for not participating (39 percent of male employees versus 35 percent of female employees).

Working part-time is the second most common reason cited by women workers for not participating in their employer's pension plan (see Figure 2 and Figure 3). Many more women than men said they did not work enough hours to be included (24 percent of women versus 13 percent of men). The largest difference occurred at older ages, with 35 percent of women saying they worked too few hours compared with only 20 percent of men. The difference between men and women is *not* the result of women choosing not to participate. In fact, when asked why they are not enrolled in their employer's plan, more men than women said they chose not to participate (29 percent versus 24 percent respectively).

### What Kind of Pension Plan?

Since the passage of the Employee Retirement Income Security Act (ERISA) in 1974, there has been a trend away from defined benefit pension plans toward defined contribution plans (see Table 1). Although this study did not find a significant difference between men and women participating in a defined contribution versus a defined benefit plan, the growth in defined contribution plans does have different *impacts* on men and women. For example, because women tend to move in and out of the labor market

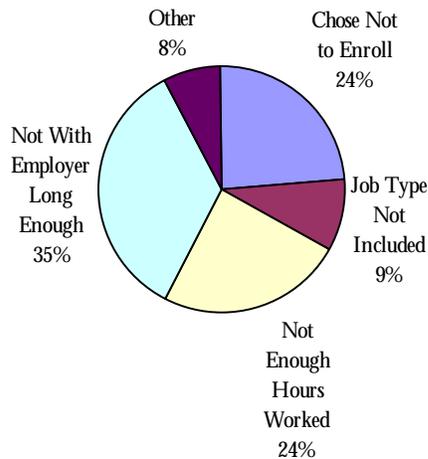
more frequently than men, women benefit from the portability of defined contribution plans. But, the practice of allowing lump sum withdrawals has negative implications for women, as special spousal rights are lost after payments are converted into other savings vehicles or spent.

It is important to note that for both men and women, defined contribution plans present a higher risk than traditional defined benefit plans. In the past two decades, stock market growth has largely silenced opposition based on the risk to workers because it has been relatively easy to make high returns. If, as some economists predict, returns on stocks continue to drop in the coming decade, as they did in 2000, the risks associated with defined contribution plans become a more salient policy concern.

### Lump Sum Payments

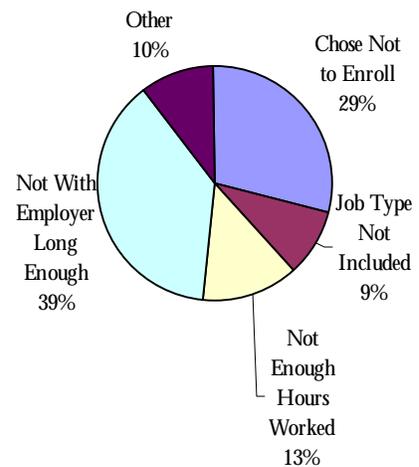
Considerably fewer women than men rolled their lump sums over into another investment earmarked for retirement (27 percent of women compared with 36 percent of men). Women also lagged behind men in re-investing the funds in other savings vehicles such as savings accounts, stocks, bonds, or the purchase of a home (or paying off a mortgage); 27 percent of men compared with 23 percent of women re-invested their lump sum in one of these other savings vehicles. Instead, women were more likely to use their lump sums for everyday expenses, paying off bills or loans,

**Figure 2. Female Employees' Reasons for Not Participating in Their Employer's Pension**



Source: Authors' calculations based on data from the 1993 SIPP Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995.

**Figure 3. Male Employee's Reasons for Not Participating in Their Employer's Pension**



Source: Authors' calculations based on data from the 1993 SIPP Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995.

or for children's education. Women's greater propensity to spend rather than re-invest their lump sum distributions suggests that they are particularly at risk for this "leakage" of retirement savings.

### Table 1. Defined Benefit and Defined Contribution Plans

In a **defined benefit** plan, benefits are typically determined based on the number of years of service and the employee's salary. The company, rather than the individual, bears the financial risks of investment. Employers must provide benefits in the form of joint and survivor annuities (monthly benefits that last over the lifetimes of both spouses), unless the spouse waives his or her rights in writing.

Legally, **cash balance** plans are defined benefit plans. They are designed, however, to resemble defined contribution plans in that individuals receive information on "their" accounts, and employees can more easily take accrued benefits if they leave the company. Like other defined benefit plans, cash balance plans are insured by employers with the Pension Guarantee Benefit Corporation.

In a **defined contribution** plan, benefits are determined based on contributions to the employee's account which often include employee's elective deferrals of earnings and matching contributions to the account by the employer. Contributions may come entirely from either the employee or the employer. When the employee retires, benefits are calculated as the sum of all contributions plus interest, dividends, and capital gains (or losses). Payment options in defined contribution plans vary. Based on data from the U.S. Department of Labor on large and medium sized private firms, Mitchell and Schieber (1999) found that almost all participants in defined contribution plans could take all or part of their funds in a lump sum; half may receive installments and fewer than a third could convert their pension funds to lifetime annuities.

## Policy Implications

Women workers appear to be making significant progress toward closing the pension gap. Even including part-time workers, the gap in pension coverage between male and female employees is much smaller than the gap in pension receipt between currently retired women and men. Nevertheless, a pension gap remains. Federal action to increase pension sponsorship and participation could include:

- Encouraging more employers to offer a pension plan;
- Encouraging the extension of coverage to part-time workers;
- Requiring employers to "vest" employees in pension plans in three years rather than five years;
- Creating protections in the use of lump sums for spouses; and
- Protecting and improving women's retirement income from other sources; e.g., ensuring a Social Security system that does not expose individuals to risk, provides full spousal protections, and retains redistributive features.

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