Spotlighting Women's Retirement Security

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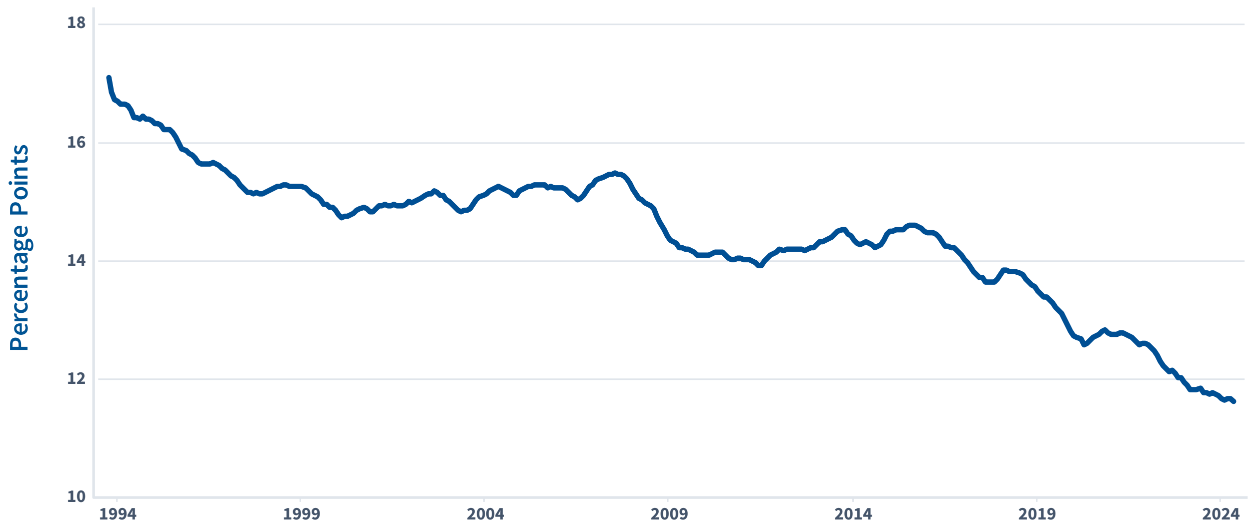
Over the past few decades, women have made strides in their economic participation. Women's prime-age labor force participation rate (ages 25-54) reached 78.4 percent in August 2024, narrowing the gap in participation between women and men to the lowest point in three decades (Figure 1). As of 2021, 39 percent of women have completed four or more years of college – up from 19.6 percent three decades earlier.[1] And, as consumers, women are predicted to control 75 percent of discretionary spending by 2028.[2]

Figure 1. Labor Force Participation Rate Gap (Men's LFP-Women's LFP)



Note: Labor force participation rate gap (LFP) is a 12-month backward moving average of the difference between seasonally adjusted LFP for men aged 25-54 years (LNS11300061) and seasonally adjusted LFP for women aged 25-54 (LNS11300062) from January 1994 through August 2024.
Source: Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey 1994-2024. Last accessed on September 10, 2024.

Despite these remarkable gains, women's economic well-being continues to lag in key outcomes like median earnings and retirement security. Research shows that women hold fewer retirement assets and are more likely to be impoverished at the end of their lives than men.[3]

It is increasingly urgent to address the gender gap in retirement security, especially as the U.S. population ages. In this brief, we discuss the latest findings on the gender gap in retirement security and some of its drivers, focusing on the impact of access to retirement savings accounts and variations in their design.[4] We also highlight recent federal initiatives to advance retirement security, including ways in which the federal government is implementing the SECURE 2.0 Act of 2022.[5]

What is the state of women's retirement security?

Recent surveys show that retired women have lower levels of economic security than men, and most prime age working women express a lack of preparedness for future retirement.[6]

In general, retirees in America rely on Social Security benefits, tax-preferred retirement accounts, including 401(k) plans, Individual Retirement Arrangements (IRAs), and defined benefit pension plans to meet consumption needs. Assets like home and business equity, income from dividend and interest earnings on stock market investments, and income from continued work are also common sources of long-term economic security.[7] Multiple studies indicate that women are disadvantaged across all such sources: they tend to receive lower Social Security benefits, have lower retirement account ownership rates and lower estimated retirement account balances, and own fewer assets than men.[8]

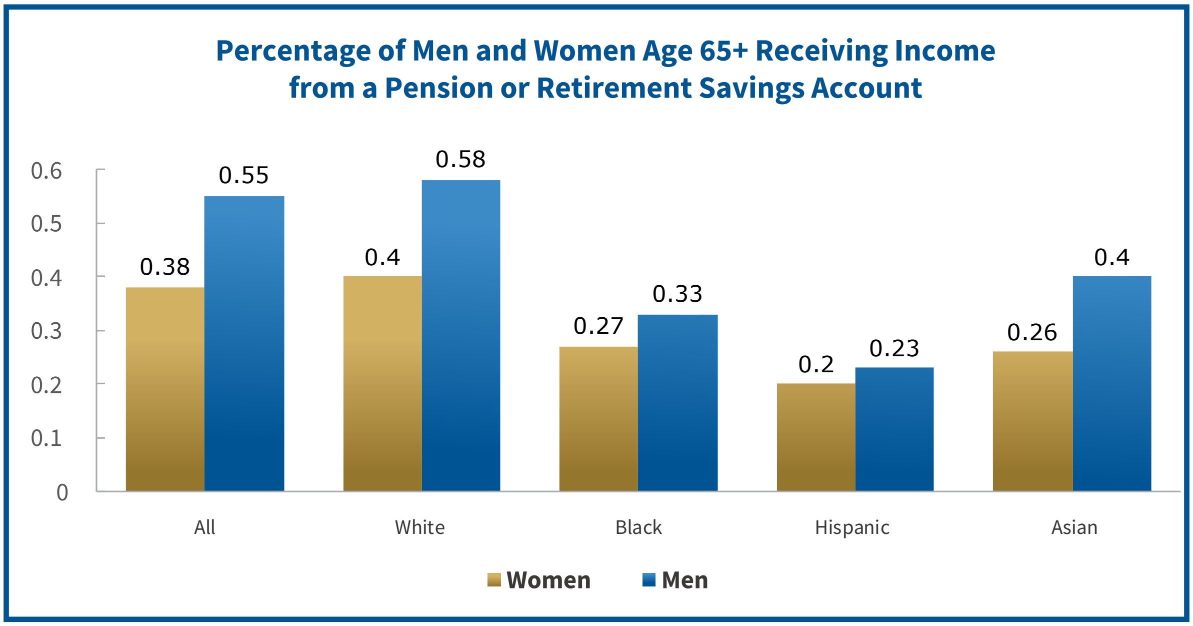
While estimates vary due to limited availability of data, especially with regard to retirement account balances, most research suggests that women have approximately 30 percent lower income in retirement than men.[9] For example, using self-reported data from a U.S. Census survey, the Institute for Women's Policy Research estimates that in 2021, the median retirement income for women over 65 was 32.6 percent lower than for men and was driven by retirement account balances – a gap that is largely tied to labor market opportunities.[10] Without intervention, these gaps may widen.

Department of the Treasury (Treasury) research also finds gaps in IRA balances between men and women at or near retirement age (56-65). Specifically, Treasury researchers analyzing U.S. administrative tax data estimate that while female single and head of household tax filers at or near retirement age are slightly more likely to have a non-zero balance in retirement accounts than men, their median IRA account balances are on average lower than male single and head of household tax filers of the same age.

Consistent with these estimates, the majority of working age women report not being or feeling prepared for retirement.[11] For example, a 2024 national survey conducted by the National Council on Aging and Women's Institute for a Secure Retirement, shows that less than half of surveyed women aged 25 and above have saved for retirement.[12] Alarmingly, approximately one-third of women surveyed expect that their retirement income or savings will not be enough to pay their monthly bills in retirement. Among the respondents, 59 percent of all women and 81 percent of low-income women indicated that they do not earn enough to save for retirement.[13]

Larger gaps in retirement security for women of color

Gaps in retirement security are even larger for women of color. For example, according to a study by the Women's Institute for a Secure Retirement in 2018, 40 percent of white women aged over 65 received income from a pension or retirement savings account. In comparison, only 27 percent of Black women, 26 percent of Asian women, and 20 percent of Hispanic women received income from these sources (Figure 2).[14] Women of color are also less likely to own assets such as homes, businesses, or stock market investments, from which they can draw income or financial security later in life.[15]



Source: Women's Institute for a Secure Retirement tabulations of U.S. Census Bureau, Current Population Survey, Annual Social and Economic (ASEC) Supplement 2018.

What drives the gender gap in retirement security?

The gender gap in retirement security can be attributed to ways that the U.S. retirement system magnifies differences in women's experience in the labor market, impacting their lifetime earnings and shaping their access to and type of retirement savings opportunities. Other factors may include savings and investment behavior, financial capability, and systemic issues that affect asset-building opportunities, such as discrimination.[16]

In this brief, we focus on labor market-driven factors such as earnings and retirement savings plan access and design issues.[17] Future publications will examine other drivers and specific policy solutions in more detail.

Persistent pay gap, occupational segregation impact women's ability to save.

Despite historically high labor force participation rates and gains in educational attainment, women's labor market opportunities and outcomes lag men's, leading to lower lifetime earnings and consequently, lower retirement savings.

While the gender pay gap has been narrowing over the past few decades, on average, women continue to earn less than men.[18] In 2023, women working full-time earned 82.7 cents for every dollar earned by men, with wider gaps for women of color.[19] The National Women's Law Center estimates that the current gender pay gap, over a 40-year career, could cost women approximately $406,280, and women of color approximately $1 million.[20]

In part, the gender pay gap is due to occupational segregation – that is, the overrepresentation of women, particularly women of color, in lower-wage occupations, and conversely the underrepresentation of women in higher-paying occupations.[21] Low wages coupled with limited access to employer-sponsored benefits in these occupations significantly reduce women's ability to save for retirement.

Occupational Segregation

A substantial body of evidence shows that occupational segregation, or an uneven distribution of workers across occupations by gender, race, and ethnicity, is associated with significant differences in wages, benefits, including access to retirement plans, and other job quality factors for workers.[22] Occupational segregation contributes to existing gender and racial wage gaps.

Overrepresentation of marginalized groups in certain occupations cannot be fully explained by key measures of productivity such as required skill level or education.[23] A variety of factors may influence occupational segregation, including illegal or extralegal exclusion of women and people of color from certain fields or job types. For example, according to the "occupational crowding" thesis, discrimination drives marginalized groups into low-wage occupations by excluding them from high-wage jobs for which they are qualified.[24] The increase in the supply of workers in those occupations in turn depresses wages, decreases workers' bargaining power and likely limits their access to employer-sponsored benefits such as retirement plans.

Some studies suggest that the unequal sorting of men and women into higher and lower-wage occupations is linked to the "devaluation hypothesis." This hypothesis suggests that there is an observed trend that when women enter certain occupations, wages in those occupations decrease. Working in women-led occupations is, in turn, associated with lower pay for women and men across all races and ethnicities, even after accounting for education and work experience.[25]

The most prominent examples of occupations that are lower-paying and dominated by women are concentrated in the care sector. A study by the Economic Policy Institute (EPI) estimates that in 2018-2020, women made up 88.6 percent of the home health care workforce and 94 percent of child care workforce. Black women and other women of color are disproportionately represented in the care occupations. In the meantime, the researchers underline that despite a high demand for and concomitant high costs of family care services, child care and home health care workers are paid $13.51/hour and $13.81/hour, respectively, or approximately half what the average U.S. worker is paid ($27.31).[26] The substantially lower market wages in the care sector have been characterized as a "wage penalty" that persists even after controlling for factors such as education level.[27]

Unequal unpaid care burdens may also contribute to occupational sorting by gender.[28] Some evidence suggests that caregiving responsibilities following the birth of a child may influence women to seek more flexible work arrangements, potentially in lower-paid occupations.[29] However, this does not explain occupational segregation affecting women without children or other caregiving responsibilities, or before those responsibilities begin.

Notwithstanding occupational segregation, however, research suggests that the gender pay gap persists even for men and women in identical occupations.[30] Certain hiring practices, including the use of salary history to determine compensation, can exacerbate pay disparities for workers who face discrimination in the labor market.[31]

The wage gap impacts women's retirement savings outcomes in several related ways. First, lower pay correlates with a lower capacity to save.[32] Second, lower-paying jobs tend to have fewer benefits, including lower access to employer retirement plans, resulting in smaller or no employer contributions to retirement.[33] Third, because retirement plan contributions are typically based on a percentage of salary, women in lower-paying jobs benefit less from any available employer match than do more highly paid employees.

Interrupted careers for caregiving result in lower lifetime earnings and savings.

Women are more likely than men to work part-time and to spend fewer total years in the workforce, often due to taking on unpaid care work for children and other family members. While more men are taking on caregiving responsibilities, in 2022, 14 percent of prime-age women were full-time caregivers compared with 1.5 percent of prime-age men.[34] In that same year, 21 percent of women worked part-time compared with 11 percent of men.[35] Among parents, 22.8 percent of mothers with a child under six years old and 4.3 percent of fathers worked part-time.[36]

The effects of reduced work hours or a complete exit from the labor force compound over time, significantly hampering women's ability to save for retirement.[37] Reduced tenure can result in foregone employee or employer contributions, reduced retirement account balances, and often lower wages upon re-entry into the workforce.[38] Loss of other employer-sponsored benefits such as health care can also hinder retirement saving efforts or cause financial hardship due to unexpected events.

Access to employer-sponsored retirement plans and design of the plans linked to retirement savings outcomes.

Millions of workers do not have access to employer-sponsored retirement plans, and even among those that do, there are notable differences in retirement savings by gender, race, and ethnicity.

According to the Bureau of Labor Statistics, as of March 2023, 73 percent of civilian workers had access to employer-sponsored retirement benefits, and less than half of lower-income earners had access to these benefits.[39]

While individuals without an employer-sponsored plan can save for retirement on their own, for example through IRAs, having employment-related access to this benefit, especially through automatic enrollment, can significantly boost saving rates.[40] Employer-sponsored plans, like 401(k) plans, also have significantly higher annual contribution limits than IRAs, amplifying the impact of preferential tax treatment.

In addition to access, the design of employer-sponsored retirement plans may have a significant impact on retirement savings outcomes for women.[41] For example, a Brookings Institution analysis points out that the shift to defined contribution (DC) plans (i.e., 401(k) savings and other similar account based plans) from traditional defined benefit (DB) plans (i.e., pensions) has potentially benefitted women through increased portability of retirement savings since they are more likely to have interruptions in their careers.[42] On the other hand, the researchers underline that while DB plans tend to offer guaranteed payments for life, DC plans simply allow for accrual of savings which might prove inadequate to cover women's longer life expectancies.[43]

DC plans include features that offer more flexibility than DB plans, and generally participants have choices on whether to participate in a plan, how much to contribute, how to invest the assets, and when and how to access retirement savings.

For example, one important flexibility feature in DC plans is that plans may offer the ability to withdraw retirement savings, which can serve as a buffer in times of financial emergencies. A recent study by Vanguard showed that in 2022, 80 percent of hardship withdrawals were taken by lower-income participants "to avoid loss of their home, repair damages to their home, or for medical expenses."[44] However, early withdrawals can also result in significant long-term losses in retirement security in addition to tax penalties. An analysis by the Aspen Institute and Morningstar further showed that early withdrawals, among other factors, are associated with lower levels of retirement savings in the 401(k) plans among women and workers of color.[45]

More fundamentally, although DC plans include features that may positively impact retirement savings for women, the retirement savings incentives embedded in DC plans, including employer contributions and tax subsidies, widen retirement savings gaps related to early withdrawal or lower income. Because retirement plan contributions, as well as marginal tax rates increase with income, so do savings incentives, accumulating higher levels of subsidies for the higher-income earners who are disproportionately white and male. A recent analysis estimates that bottom 20 percent of earners get only about 70 percent of cumulative tax and employer subsidies as a proportion of their annual lifetime earnings, while the top 20 percent of earners get about 250 percent of their annual lifetime earnings in additional saving subsidies. Changes to employer contributions – for example, making equal contributions per worker rather than matching a percentage of worker savings – may partially mitigate this trend.[46]

What are some possible policy solutions?

The Biden-Harris administration has worked to improve financial security for all Americans, including through a number of recent actions that may improve retirement security for women by decreasing occupational segregation and the gender pay gap.

For example, targeted initiatives like Million Women in Construction and the Good Jobs Initiative aim to expand access to higher-paying jobs with benefits and union membership opportunities, which Treasury's analysis shows to help to close gender wage gaps within firms. The administration has also focused on addressing discrimination that can drive wage gaps, including by making the federal government a model employer by banning the use of salary history in federal hiring.[47] Another key initiative includes the investments in high-quality child care including the employer-sponsored access plan provision required through the CHIPS and Science Act of 2022 and the Employee Retirement Income Security Act (ERISA) final rule that requires financial advisors to adhere to the prudence standard of care, reduce retirement investor exposure to conflicted advice that may erode investment returns, and adopt protective conflict-mitigation requirements.

In 2022, President Biden also signed the SECURE 2.0 Act into law, which made key policy changes to the retirement system to enhance retirement security for millions of Americans, including by expanding access to and modifying DC plan features, as well as boosting incentives for individual savers. [48]

The SECURE 2.0 Act builds on the earlier Setting Every Community Up for Retirement Enhancement Act of 2019 ("SECURE Act").[49] While there are over 90 provisions in the SECURE 2.0 Act, we highlight key provisions that hold promise to improve women's retirement security.

Expanding retirement savings opportunities for low-income earners through the Saver's Match.

A key provision in SECURE 2.0 is the Saver's Match, which aims to support low-income earners' efforts to save for retirement by creating an annual federal government match up to $1,000 per individual (up to $2,000 per married couple), paid directly to a workplace retirement plan or IRA.[50] The Saver's Match is designed to be a more inclusive version of the Saver's Credit, a nonrefundable tax credit that sunsets with the 2026 tax year. Plan sponsors or custodians will be allowed but not required to accept Saver's Match funds directly into employee accounts.

Analysis from the Employee Benefit Research Institute projects that the provision has the potential to help over 20 million eligible Americans save for retirement.[51] Treasury researchers estimate that among Saver's Match-eligible single and head of household tax filers age 56-65, women are slightly more likely than men to have made contributions to qualified retirement account in 2019, suggesting that they may be likelier to realize benefits from the Saver's Match. The Treasury Department is tasked to implement the Saver's Match, which will go into effect in 2027, as well as to promote uptake for eligible recipients.[52]

Improving coverage for part-time workers.

Given women's higher likelihood of working part-time throughout their careers, SECURE 2.0 may help more women access retirement plans sooner. In the SECURE Act, 401(k) plans could no longer exclude employees who worked for three consecutive years of 500 hours from being eligible to make elective deferrals in the plan.[53] The SECURE 2.0 Act reduced this requirement to two years and expanded the requirement to 403(b) plans subject to ERISA.

Expanding automatic enrollment in retirement plans.

With certain exceptions, SECURE 2.0 requires certain DC plans (401(k) and 403(b) plans) to automatically enroll and annually increase contributions for eligible employees.[54] Employees may opt out of coverage, but research suggests that employees are 20 times more likely to save if enrollment is automatic.[55] Additional research shows that automatic enrollment is associated with improved retirement outcomes, including increased savings, for lower-compensated employees.[56]

Providing Exemptions for Certain Emergency and Specific-situation Withdrawals

SECURE 2.0 created added flexibility for accountholders facing urgent financial hardship, through new exceptions to the 10 percent additional tax for early distributions from applicable eligible retirement plans for certain distributions.[57] An individual may treat a distribution of up to $1,000 per calendar year as an emergency personal expense distribution, due to unforeseeable or immediate financial need. The provision allows for a three-year window to repay the distributions. The law also requires repayment of the sum within three years before another emergency withdrawal can be made.

The law also expands specific-situation withdrawal options for survivors of domestic abuse, who may receive a distribution of up to $10,000 without the application of the 10 percent additional tax. Finally, the law also makes permanent rules regarding distributions for those affected by a federally declared disaster. These distributions are includible in gross income but are not subject to the 10 percent additional tax.

Although retirement account withdrawals are in general linked to lower long-term economic security, these limited exemptions from withdrawal tax penalties may provide short-term support to women facing financial shocks and could alleviate concerns for workers who hesitate to contribute to retirement plans out of concern for their short-term liquidity.

Creating an Emergency Savings Option

Research shows that women, particularly women of color, are less likely to have three months of emergency savings than men.[58] Research also shows that having lower or no liquid savings increases the likelihood that workers will pause or reduce contributions to retirement savings.[59] SECURE 2.0 allows employers to offer pension-linked emergency savings accounts (PLESAs), in connection with a DC plan, to non-highly compensated employees and to auto-enroll employees in such plans.[60] Subject to certain restrictions, matching contributions are made with respect to PLESA contributions at the same rate as contributions to the underlying linked plan. In general, the maximum balance in a participant's PLESA is $2,500, and participants can make tax-free withdrawals of funds held in a PLESA at least once a month, as necessary. This extends the tax preference associated with retirement accounts to emergency savings, and can help workers to build, over time, an emergency savings buffer that facilitates withdrawal of funds for emergency purposes without penalties of drawing from retirement savings.[61]

Collectively, these provisions have the potential to improve retirement security for women, as well as many other Americans. The impact of these provisions will depend on whether retirement plan sponsors adopt optional provisions, whether the mandatory provisions are effective, and whether the public-private partnerships can implement the law. Considering varied implementation timelines of the provisions, such as the Saver's Match that is not effective until 2027, it will take several years to fully harness and assess the benefits of SECURE 2.0 Act.

Other policies – including those that enhance women's labor market outcomes, narrow the gender pay gap, and support paid and unpaid care work and those who perform it – are necessary to address the many factors contributing to the gender gap in retirement security. However, in combination with these policies, the SECURE 2.0 Act has potential to bridge some of the retirement savings divide, supporting women's ability to age with dignity and financial security.

Endnotes

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