The Gender Gap in Pension Coverage

What Does the Future Hold?

Institute for Women's Policy Research

The Gender Gap in Pension Coverage: What Does the Future Hold?

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INSTITUTE FOR WOMEN'S POLICY RESEARCH

About This Report

The Gender Gap in Pension Coverage: What Does the Future Hold? is the result of on-going research conducted at the Institute for Women's Policy Research to analyze the economic status of women and men as they age. The goal of this project is to make policymakers and the public aware of the economic issues facing older women and how they differ or are similar to those of older men.

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The Institute works with policymakers, scholars, and public interest groups to design, execute, and disseminate research, and to build a network of individuals and organizations that conduct and use women-oriented policy research.

IWPR, an independent, nonprofit organization, also works in affiliation with the graduate programs in public policy and women's studies at The George Washington University.

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EXECUTIVE SUMMARY

This report documents pension coverage among male and female employees and examines voluntary and involuntary reasons why women and men do not participate in pension plans. The good news is that women are participating in pension plans in greater numbers, and, for women working full-time, near equality with men has been achieved. Part-time workers (who are disproportionately women), however, remain much less likely to participate in employer-sponsored pension plans. Less than a third of part-time workers participate in a pension plan. The largest difference in participation 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. Overall, older female employees are less likely to expect to have a pension in retirement from any source than are older male workers; 36 percent of male employees lack a pension from any employer compared with 44 percent of female employees.

It is important to note that the pension gap between male and female workers is narrower than is the gap between men and women in the entire population. This is because fewer women than men are employed at any one time. For example, 23 percent of women aged 25-44 were not in the labor force in 1999 compared with only 8.5 percent of men (authors' calculation based on the March 1999 Current Population Survey). While this analysis focuses on pension coverage among workers, differences in labor force participation rates should be kept in mind.

This study has a number of implications for public policy. Overall, these findings suggest that extending pension coverage to part-time workers and lowering vesting periods should be at the center of a women's agenda for federal pension policy. Moreover, public education remains important, particularly as defined contribution plans continue to grow in importance relative to defined benefit plans. Benefits from defined contribution plans depend on market returns and require workers to play an active role in investment decisions. Defined contribution plans also allow workers to receive lump sum distributions before retirement without regard to their spouse's wishes. Therefore, public education on the importance of re-investing these funds is an increasingly important concern. Regulation to protect spousal rights in lump sum distributions may also be in order. This study finds that women and men are equally likely to be enrolled in a defined contribution plan as their primary pension plan; however, important gender differences exist. For example, women are more likely than men to spend, rather than re-invest, lump sum distributions of their pensions received when leaving a job. While using a lump sum from a pension to pay bills, invest in their children's education, or buy a car may be reasonable choices, this trend does not bode well for the economic security of future generations of older women.

BACKGROUND

Older women enter retirement with fewer economic resources than men. For example, in 1998, the median income for unmarried men aged 65 and older was $15,812 compared with $12,097 for unmarried women aged 65 and older (for married households where the head of household is 65 and older, the median income was $30,817). When the likelihood of being married is taken into account, the difference between women's and men's incomes is even more pronounced, because older men are much more likely to be married than older women.[1] Overall, there is a substantial gender gap in all sources of retirement income including Social Security, pensions, savings, and earnings from post-retirement employment (Burnes and Schultz 2000).

The difference in income from pensions is especially pronounced. Among the elderly, 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. Among those who receive income from pensions, women's benefits are only about half as large as men's benefits (Johnson 1999). This pension gap has actually worsened in the past twenty years. While median pension income increased for men about 13 percent between 1976 and 1996, median pension income for women stagnated during this same period (Johnson 1999).

Women today are working in the paid labor force in greater numbers and for longer periods of time than ever before. Between 1970 and 1995, the proportion of women working in the labor force rose from 38 percent to 59 percent, while men's participation in the labor force dropped from 83 percent in 1970 to 75 percent in 1995 (Blau, Ferber, and Winkler 1998: Table 4.1). Women's real wages also grew during this period, resulting in a narrowing of the wage gap from 60 percent in the 1970s to 73.5 percent by 1997. While women continue to have shorter and less lucrative careers, and remain more likely to work part-time, real improvements in women's earnings have been achieved over the past several decades.

Pensions and Social Security are sources of retirement income that logically should be most directly affected by women's increased labor force participation and earnings over the past several decades.[2] However, unlike Social Security in which participation is mandatory for almost all workers, pension coverage depends on decisions made by both employers and employees. We would expect that today's working women would be making progress toward closing the pension gap. But, women's participation in pensions will not necessarily keep pace with their increased participation in the labor force. An empirical analysis of pension coverage is needed to gauge whether this social change will translate into more economically secure retirements for future generations of women.

Since the early 1970s, there has been a narrowing of the gap in pension coverage among female and male employees. In 1972, only 38 percent of women working full-time in the private sector had pension coverage, compared with 54 percent of men (Johnson 1999:2). In the 1980s, pension coverage increased among female workers, but declined slightly among male workers (Johnson 1999). Today, research shows that, among *full-time* workers, coverage rates for men and women are nearly equal. This study finds that 60.1 percent of full-time female workers participate in an employer's pension plan compared with 61.7 percent of full-time male workers. As described below, however, when the entire workforce is included, the gender gap in pension coverage re-emerges.

This study also considers the implications for women of the industry-wide trend toward defined contribution plans (see Table 1 for a definition of defined contribution and defined

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. Neither the employee nor the employer always contribute. When the employee retires, benefits are calculated as the sum of all contributions plus interest, dividends, and capital gains (or losses). Employers consider defined contribution plans cheaper and easier to administer (Gale, Papke and Vanderhei 1999). 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.

benefit plans). The potential impact of this trend on women is mixed. On the one hand, because women tend to move in and out of the labor market more frequently than men, women could benefit from the shorter vesting time and greater portability associated with defined contribution plans. On the other hand, the practice of allowing lump sum withdrawals could have harmful impacts on women, as special spousal rights are lost after payments are converted into other savings vehicles such as IRAs or money market accounts. When workers leave their jobs, the distribution of pension assets in lump sums also creates possible "leakages" of retirement savings. As discussed later in this report, women are less likely than men to roll over a lump sum payment into another investment earmarked for retirement (27 percent of women compared with 36 percent of men). They are also less likely to use their lump sums for investments such as savings accounts, stocks, bonds, or purchase of a home. Instead, women are more likely to use their lump sums to pay for medical care or children's education, to pay off other bills or loans, or for everyday expenses. Those most likely to be negatively affected by the trend toward defined-contribution plans are those who have the smallest Social Security benefits (e.g., divorced women and low earners). This trend could exacerbate income inequality between elderly women and men in the future.

Research Objectives, Data, and Methodology

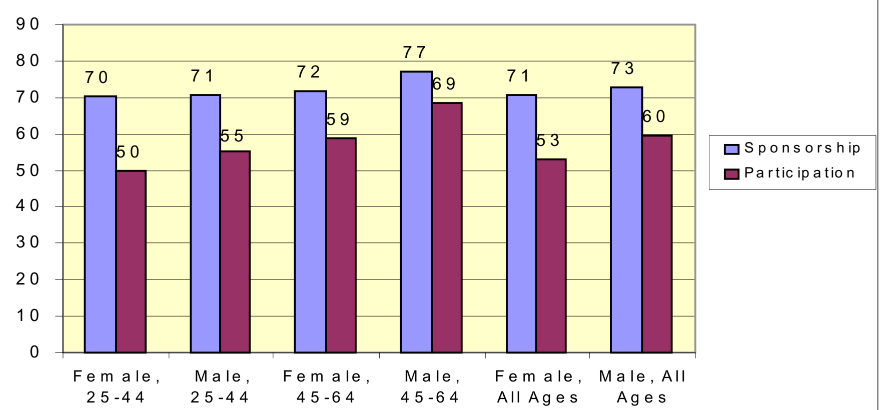
This study analyzes data from the Pension Topical Module of the Survey of Income and Program Participation (SIPP) to document the gender gap in pension income and to consider the factors affecting whether female and male workers participate in their employer's pension plan. Specifically, the study considers whether differences in the hours worked, duration of employment, and the level of earnings account for the differences between male and female employees' likelihood of participating in a pension plan. The study also addresses differences among men and women regarding the likelihood of re-investing pre-retirement lump sum distributions as well as how men and women use funds not re-invested.

This study uses data from the 1993 panel of the Survey on Income and Program Participation (SIPP) collected from July to December of 1995 (Wave 9) by the U.S. Bureau of the Census.[3] The SIPP uses a multi-stage, stratified sample of the U.S. civilian non-institutionalized population. It is designed to provide comprehensive, longitudinal information on the changing characteristics of individuals, including labor force participation and history, employment/job characteristics, and marital status. The SIPP also has a special topical module that provides comprehensive data on retirement expectations and pension plan coverage. This analysis is based on a merged data set of core questions on participants (such as age, sex, labor force participation and marital status) and questions on retirement expectations and pension coverage (Wave 9), including detailed information on pension coverage, reasons for non-coverage, plan characteristics and the use of lump sum payments.[4] Since the trend toward defined contribution plans was well established by the mid-1990s, our results are relevant to current policy debates.

The population included in this study consists of full-time and part-time wage and salary workers between the ages of 25 and 64. The total number of adult workers in the final sample is 16,512, of which, 51 percent are male workers (8,485) and 49 percent are female workers (8,027). All wage and salary workers employed in the public, private, and non-profit sectors are included. Self-employed persons are not included. This study includes only the respondent's primary pension plan. Thus, this study understates the importance of defined contribution plans because when an employer offers two plans, the defined contribution plan is more likely to be considered the "second plan" and thus not included in this analysis. These characteristics must be kept in mind when comparing results from this study with information from other surveys.[5]

WHY WOMEN AND MEN PARTICIPATE, OR FAIL TO PARTICIPATE, IN PENSION PLANS

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. Participation rates include workers whose employers do not offer plans.
Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

Compiled by the Institute for Women's Policy Research

More than half of the workforce currently participates in employer-sponsored pensions (53 percent of female employees and 60 percent of male employees). The most common reason for not participating in a pension plan is that the employer does not offer one. Slightly more than 70 percent of respondents worked for an employer who offered a pension plan or a retirement savings plan such as a 401(k) or thrift savings plan (see Figure 1).[6] Although younger men and women are generally equally likelyto work for employers who sponsor plans, older women are slightly less likely than older men to work for an employer offering

Table 2. Enrollment in Pension Plans

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Percentage of workers whose company offers any kind of pension plan	70.1%	71.8%	70.7%	70.5%	77.0%	72.7%
Percentage enrolled of those whose employer offered a plan	71.2	82.0	75.0	78.4	89.0	82.1
Percentage enrolled of total sample	49.9	58.7	53.0	55.3	68.5	59.7

Note: Data on pension sponsorship include respondents who stated that their employers sponsored a pension plan as well as those who stated that their employers sponsored a 401(k) or thrift savings plan.

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

Compiled by the Institute for Women's Policy Research

Table 3. Reasons for Non-Enrollment Among Women and Men Working for Employers Who Sponsor Pension Plans

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Chose Not to Enroll	25.5%	22.3%	24.6%	31.5%	26.5%	30.1%
Job Type Not Included	9.5	8.5	9.3	9.0	11.7	9.6
Not Enough Hours Worked	21.0	34.9	24.7	11.4	19.9	13.3
Too Close to Retirement	0.1	1.4	0.4	0.0	1.6	0.4
Too Young	0.5	0.0	0.4	0.8	0.0	0.6
Not With Employer Long Enough	40.2	25.1	36.3	41.5	33.8	39.7
Other	5.9	9.5	6.9	8.9	11.7	9.5

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

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a pension (72 percent versus 77 percent).

A logistic regression analysis confirms the importance of higher wages, more hours worked per week, longer job tenure, union membership, or working for a large firm or the government in increasing the likelihood of working for an employer who offers a pension (see Appendix Table A1). Minority women and men are less likely than white workers to work for an employer with a pension plan, and African American women are even less likely than African American men to have access to a pension. Coverage by a union contract significantly increases the chances of having access to a pension, but the effect is larger for men than for women. In contrast, working more hours is even more important for women than for men.

Participation Rates

Although nearly as many women as men work for employers with pension plans, women are less likely to be enrolled in a plan (see Table 2). Among those who are working for employers offering a pension plan, about 75 percent of women and 82 percent of men participate in a plan. As expected, older workers are more likely than younger workers to participate in an employer's plan. Overall, approximately 40 percent of men and 47 percent of all women (including those working for employers not offering pension plans) do not participate in a pension plan. The difference between women and men is largest for older workers; only 59 percent of older female workers compared with 69 percent of older male workers are enrolled in a pension plan.

It is important to note that the differences between men and women do *not* appear to be the result of women choosing not to participate. In fact, when asked why they are not enrolled in their employers' plan, more men than women said they chose not to participate (30 percent versus 25 percent respectively; see Table 3). As expected, younger women and men were more likely to choose not to participate in the pension plan compared with older women and men; regardless of age, men were more likely than women to choose not to participate. For all workers, however, the most common reasons for not participating in a pension plan are involuntary (such as the employer not offering a plan, short job tenure, or part-time employment).

Among workers whose employers sponsor a pension plan, not having worked for the employer for a sufficient period of time was the most frequently cited reason for not being enrolled. Approximately 40 percent of both young men and young women did not participate in their employer's pension plan because they had not worked for the employer long enough to qualify. Surprisingly, about one third of older men also mentioned this reason. In fact, this response is more common among older men than among women of the same age. As discussed below, some of these older workers who have not worked long enough for their current employer may have retired from other jobs from which they expect to receive a pension.

Table 4. Plan Sponsorship and Employee Participation by Part-Time and Full-Time Status

	Part-Time Employees					
	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Employer Sponsors Any Kind of Pension Plan	54.8%	56.8%	55.5%	50.3%	63.7%	55.1%
Enrolled if a Plan is Sponsored	49.0	60.4	53.2	43.9	51.0	46.9
Percent of total Population Enrolled	26.8	34.3	29.5	22.1	32.5	25.8
	Full-Time Employees					
	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Employer Sponsors Any Kind of Pension Plan	74.6%	76.4%	75.2%	71.7%	77.9%	73.7%
Enrolled if a Plan is Sponsored	76.0	86.9	79.8	79.8	91.0	83.7
Percent of total Population Enrolled	56.7	66.4	60.1	57.2	70.9	61.7

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

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Working part-time is the second most common reason cited by women workers for not participating in their employer's pension plan. Many more women than men said they did not work enough hours to be included in the pension plan. 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. As shown in Table 4, part-time workers are less likely to work for an employer that sponsors a plan, with men and women who worked part-time equally affected. Part-time workers are also much less likely than full-time workers to participate if their employer does sponsor a plan. As noted above, some of these part-time workers are not eligible to participate and, therefore, the difference in take-up rates between full and part-time workers cannot be interpreted as entirely due to differences in individuals' decision-making. Female part-time workers are more likely than male part-time workers to participate when their employer sponsors a pension plan. In contrast, male full-time workers are slightly more likely than their female counterparts to participate. Overall, participation rates of full-time workers are twice as high as those of part-time workers among women, with an even larger difference among men.

A logistic regression analysis of the factors affecting enrollment in an employer's plan confirms the importance of hours worked as an influence on women's lesser participation (See Table A.2. in Appendix). Although hours of work are important for both women and men, the impact of part-time employment on women's participation rates is significantly larger. This finding appears to contradict the tabular analysis which found a larger reduction in participation among men working part-time than among women. After controlling for other factors, part-time employment status becomes more important for women. The fact that the regression analysis uses a continuous variable for hours worked, rather than a part-time/full-time distinction might also contribute to this result.

As expected, married men are more likely than single men to be enrolled in a pension plan. This result also holds for married vs. single women, though less strongly. Other important factors associated with participation include job tenure, union membership, and government employment. In most cases, women are less likely than men to have the characteristics associated with participation in a pension plan. On average, women worked fewer hours per week (37 vs. 43 hours), had fewer months on their current job (96 months vs. 115), were less likely to be employed in a unionized work place (18 percent vs. 24 percent), and were less likely to be married (63 percent vs. 69 percent). In contrast, government workers are more likely than private sector workers to participate in a pension plan, and women are more likely than men to hold government jobs (21 percent vs. 15 percent).

Our research found that pension coverage correlated with wage rates only indirectly. Low-wage workers were less likely than those with higher wages to work for an employer who sponsored a pension plan. However, low-wage workers appeared to be just as likely as higher-wage workers to participate if an employer did offer a pension plan. This finding suggests that ERISA nondiscrimination rules, allowing tax-favored fringe benefits only if all workers, including lower paid workers, are eligible to participate in the pension plan, have been at least partially successful.

The discrepancy between men and women in the actual receipt of a pension in retirement is likely to be even larger than figures on current enrollment suggest. This is because fewer women than men are in the labor force at any given time during their working lives. Part of this effect can be seen in figures on whether workers expect to receive a retirement pension from a former job (see Table 5). Overall, fewer than 10 percent of workers expect to receive a pension from a previous employer, but women are less likely than men to expect such a pension, especially at older ages (7.7 percent of women compared with 14.2 percent of men). At ages 45-64, more than 22 percent of men who are not enrolled in their current employer's plan expect a pension from a previous employer compared with only 11 percent of women. Not surprisingly, the percentage of younger workers expecting a pension from a past job is much lower.

Among older workers (see Table 6), only 26 percent of men lack

Table 5. Percentage of Employees Who Expect to Receive a Pension from a Past Job

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Total Sample	6.5%	7.7%	6.9%	7.3%	14.2%	9.6%
Workers at Employers Not Offering Plan	4.9	7.2	5.7	5.9	15.3	8.5
Workers Not Enrolled at Employers With Plans	7.5	11.1	8.4	8.7	22.9	11.8
Workers Currently Enrolled in Pension Plan	7.1	7.2	7.1	7.6	12.8	9.6

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

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Table 6. Whether Workers Currently Participate in a Pension Plan OR Expect a Pension from a Previous Employer (Percentage Distribution)

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Currently Participate	49.9%	58.7%	53.0%	55.3%	68.5%	59.7%
Does Not Currently Participate, but Expects Pension from Past Job	3.0	3.5	3.1	3.1	5.5	3.9
No Pension from Either Source	47.1	37.8	43.9	41.6	26.0	36.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

Compiled by the Institute for Women's Policy Research a pension from any source compared with 38 percent of women. Of those not expecting to receive a pension, approximately 10 percent of the women and 8 percent of the men have received a lump sum at some time.

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 that guarantee benefits based on salary and years of service toward defined contribution plans in which benefits depend on returns on investments. There is a well-established and consistent trend away from defined benefit (DB) plans to defined contribution (DC) plans. Between 1975 and 1993, the number of workers in DC plans grew from 12 million to 44 million, while participation in DB plans grew at a slower rate, increasing from 33 million to 40 million employees (Employee Benefit Research Institute 1999: 84). Experts believe this trend toward DC plans is likely to continue (Olsen and VanDerhei 1997).

This trend could have both positive and negative implications for women. On the one hand, 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. Also, defined contribution plans tend to include new workers more quickly, another positive characteristic for women. On the other hand, the practice of allowing lump sum withdrawals could have negative impacts on women, as special spousal rights are lost after payments are converted into other savings vehicles such as individual retirement accounts or money market funds. For both men and women, defined contribution plans also pose higher risk. Whereas the employer bears the investment risks in a defined benefit plan, individual workers bear the investment risks in a defined contribution plan. In the past two decades, stock market growth has largely silenced opposition based on risks to workers because it has been relatively easy to make high returns. If, as some economists project, returns on stocks continue to drop in the coming decade as they have in 2000, the issue of the risks associated with defined contribution plans becomes a more salient policy concern.

Women and men participating in their employer's pension plans are about equally likely to be covered by defined contribution plans (see Table 7).[7] Enrollment in a defined contribution plan is more common in the private sector than in the government sector and is less common in unionized jobs. There is a difference among younger and older workers of both sexes with approximately 45 percent of younger workers enrolled in a defined contribution plan (as their major pension plan) compared with about 35 percent of older workers. These figures somewhat understate the importance of defined contribution plans because they do not include second plans. When an employer offers two plans, the defined contribution plan is more likely to be considered the "second plan" and thus not included in this analysis.

A fairly large number of workers (about 30 percent) work for employers that offer more than one pension plan. In most cases, the second plan is likely to be a defined contribution plan. Women were less likely than men to have more than one plan available from their employer. Thirty-three percent of men reported more than one plan compared with 28 percent of women. Because the SIPP does not collect detailed information on an employer's second plan, these estimates of plan type include enrollment only in what the employee considers to be their main plan. This somewhat understates the prevalence of defined contribution plans.

It is also likely that many respondents do not know how their pension benefits will be calculated. Researchers generally find that while most workers can accurately report general features of their pension plans, their knowledge of more detailed information, including whether they are enrolled in a defined benefit or defined contribution plan, is poor (Starr-McCluer and Sunden 1999). In our analysis, there is evidence that some survey respondents did not accurately describe their plan type. For example, we found that about five percent of plan participants said they were enrolled in defined benefit plans, but, in a later question, said that their plan was a 401(k) plan, which is, in fact, a defined contribution plan. In Table 7, we have included this group in the defined contribution category. It is also worth noting that approximately one quarter of the responses to the question on plan type were imputed because of missing information.

There are no significant differences between men and women in the factors associated with enrollment in defined contribution plans (as their main plan). Enrollment in a defined contribution plan is more common in the private sector than in the government sector. It is less common in unionized jobs, and among workers with longer job tenure (Table A.3.). After controlling for these factors, older workers are not much less likely than younger workers to be in defined contribution plans. Longer tenure, rather than age, appears to be the major influence. The trend toward defined contribution plans may also be associated with the decline in union jobs, especially among younger workers.

Table 7. Type of Primary Plan for Participating Employees (Percentage Distribution)

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Defined Benefit	52.3%	61.1%	55.7%	52.3%	60.3%	55.3%
Defined Contribution (including 401k)	45.4	34.6	41.3	45.5	36.6	42.2
Other	2.3	4.3	3.0	2.2	3.1	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

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Lump Sum Payments

The lump sum distribution of pension assets when an employee leaves a job has become a common event over the past two decades. Approximately a quarter of all workers covered by a pension, profit-sharing, or retirement savings plan had received at least one lump sum payment since 1975 (Purcell 2000). Of workers who received a lump sum payment, 33 percent reported that they rolled over the payment into another retirement plan, with another 35 percent saying that they had invested part of the payment. The average age of recipients was between 37 and 40 years, so a majority of workers receiving a lump sum payment were at least 20 years away from retirement (Purcell 2000).

This study finds significant differences between men and women in the use of lump sums. 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 lag behind men in re-investing the funds in other savings vehicles such as savings accounts, stocks, bonds, or 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 are more likely to use their lump sums for everyday expenses, paying off bills or loans, or children's education.

The small size of lump sums many women receive may explain part of the gender difference. Although the percentage of workers who have ever received a lump sum from a former employer's pension plan is slightly higher for women than for men, the average amount received is only half as much (see Table 8). A study by the Congressional Research Service (Purcell 2000) shows that workers who receive lump sums of less than $3,000 are much less likely than other workers to roll these over into another retirement account. Lower earners are also less likely to roll over a lump sum benefit. Thus, this study's finding that women are less likely to invest their lump sum payment is consistent with Purcell (2000).

Table 8. Receipt of a Lump Sum Payment, Amount and How Used

	Female Employees			Male Employees		
	25-44	45-64	All Ages	25-44	45-64	All Ages
Ever received a lump sum	12.1%	14.1%	12.8%	10.1%	13.9%	11.4%
Average amount of payment (most recent)	$4,200	$7,761	$5,557	$7,290	$16,558	$11,016
Rollover into IRA or similar account	27.5%	27.3%	27.4%	32.6%	39.9%	35.5%
Savings account	14.7	10.4	13.1	17.6	10.9	14.9
Other investment, e.g., stocks or money market	6.3%	6.5%	6.4%	5.0%	8.8%	6.5%
Purchase home, paid off mortgage	13.6	15.4	14.3	17.5	15.3	16.6
Start business	3.6%	0.8%	2.6%	8.9%	3.2%	6.6%
Invest in children's education	4.6	4.0	4.4	0.0	3.7	1.5
Expenses while unemployed	14.1%	6.6%	11.2%	15.8%	12.1%	14.3%
Pay loans or bills	40.7	37.1	39.4	38.0	29.2	34.5
Medical or dental expenses	6.4%	2.7%	5.0%	6.9%	3.6%	5.6%
Buy car or boat	11.9	9.9	11.1	15.6	6.0	11.7
Everyday expenses	23.2%	23.3%	23.2%	24.1%	16.2%	20.9%

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

Compiled by the Institute for Women's Policy Research

The expected continued prevalence of defined contribution pension plans suggests that the distribution of pension wealth in lump sum payments prior to retirement is likely to remain an important issue. A highly mobile work force also contributes to this trend; the Department of Labor estimates that a typical 25 year old will work for seven employers before reaching age 65, presumably receiving several lump sums over his or her career (cited in Purcell 2000: 1). 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. Overall, the distribution of pension funds prior to retirement can be expected to contribute to increased income inequality among retirees.

POLICY IMPLICATIONS

In some respects, women workers appear to be making significant progress toward closing the pension gap. For women working full-time, near equality in pension coverage has been achieved (60 percent of female employees compared with 62 percent of male employees). Even including part-time workers, the gap in pension coverage between male and female employees is much smaller than the 20 percentage-point gap in pension receipt between currently retired women and men. Nevertheless, a gender gap in pension coverage remains for both younger and older workers. Unfortunately, current enrollment in a pension plan does not necessarily mean future receipt of a pension. Many workers will change employers and spend their lump sum distributions. As noted in this report, women are more likely than men to spend their lump sum distributions when they leave a job. Women also remain much more likely to take time out of the labor force. At any one time, close to 30 percent of women (age 25-64) are not employed compared with 15 percent of men (age 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. In other words, the gap in pension coverage among all women and men is significantly larger than the gap between male and female workers.

Both women and men spend their lump sum payments at an alarming rate. Women's slightly greater propensity to use pension payments for everyday expenses suggests that the trend toward defined contribution plans could create special problems for women. Although there is not a significant difference between male and female workers' likelihood of participating in a defined contribution versus a defined benefit plan, the trend toward defined contribution plans does have different *impacts* on men and women. For example, the right to cash out or roll over a lump sum payment from a defined contribution plan opens the door to a loss in spousal rights. Once a defined contribution plan is spent or converted into an individual retirement account, a spouse or former spouse no longer has special rights to the lump sum. Spousal consent is not required for receiving a lump sum payment. Because women continue to take more time out of the work force for unpaid family service, it is expected that they will continue to depend on spousal protections more heavily than men.

Despite gains over the past two decades, a pension gap among female and male workers remains. Federal policies to encourage extension of pension coverage to part-time workers would be an important step in closing this pension gap. Encouraging more employers to offer pension plans and requiring employers to allow employees to vest in pension plans more quickly would be important steps for increasing pension participation among both women and men.

Finally, to the extent that women will continue to receive less income from pensions than men, protecting and improving women's retirement income from other sources takes on greater importance. A strong Social Security system with redistributive features is needed to counteract the gender gap in pension income expected between men and women in future generations of retirees. Moreover, retaining Social Security as a program that does not expose individuals to risk and that provides full spousal protections is also increasingly important as the defined contribution plans grow in importance relative to defined benefit plans. In addition, new regulations to protect spousal rights to lump sum distributions should be explored.

Federal pension policy is an under-appreciated equity issue for women. Because employer contributions to pensions are tax deductible as business expenses and the funds' earnings are not taxed, and because employees are not taxed on pension income until they retire (and begin drawing on their pension), there are significant tax advantages for pension holders. The Congressional Joint Committee on Taxation estimates that the net exclusion for employer pension plan contributions and earnings will result in $416 billion in forgone tax revenue from FY2000 to FY2004 (Purcell 2000: 2). The deductions and exclusions of pension plans is the largest "tax expenditure" in the federal budget. The pension gap, therefore, means that women do not receive their fair share of these tax advantages. Improving women's access to pensions is a matter of fairness as well as good financial planning.

TABLE A.1. LOGISTIC REGRESSION ANALYSIS OF THE LIKELIHOOD OF WORKING FOR AN EMPLOYER WITH A PENSION PLAN

Variable	Parameter Estimate	Odds Ratio
Intercept	-0.9812**	-----
Female	-0.1525	0.978
Age 45-64	-0.0227	0.782
African American, Non-Hispanic	-0.2456*	0.465
Hispanic	-0.7658**	0.727
Other Race, Non-Hispanic	-0.3192*	0.727
Private Employer	-1.2511**	0.286
Hourly Wage	0.00013**	1.000
Hours Worked per Week	0.00955**	1.010
Unionized or Covered	1.0401**	2.829
Tenure with Employer	0.0034**	1.003
Firm Size (10-24 employees)	0.8056**	2.238
Firm Size (25-99 employees)	1.4926**	4.449
Firm Size (100 employees)	3.0453**	21.017
African-American x Female	-0.3576*	0.699
Hours x Female	-0.0091*	1.009
Union x Female	-0.4740**	0.622

*Significant at the .05 confidence level Observations = 9,797
**Significant at the .01 confidence level

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

TABLE A.2. LOGISTIC REGRESSION ANALYSIS OF FACTORS AFFECTING WHETHER A WORKER PARTICIPATES IN THE EMPLOYER'S PENSION PLAN

Variable	Parameter Estimate	Odds Ratio
Intercept	-0.0266	----
Female	-1.660**	0.190
Age 45-64	0.074	1.077
African American, Non-Hispanic	-0.156	0.856
Hispanic	-0.337**	0.714
Other Race, Non-Hispanic	-0.317	0.729
Married	0.267**	1.306
Private Sector Employer	-0.674**	0.510
Wages	-0.002	1.000
Hours Per Week	0.026**	1.026
Female X Hours Per Week	0.034**	1.034
Job Tenure (months)	0.012**	1.012
Union Membership	0.675**	1.964
Firm Size (10-24 employees)	-0.273	0.761
Firm Size (25-99 employees)	-0.291	0.747
Firm Size (100 or more employees)	-0.302	0.739

Note: Only workers whose employer has a pension plan are included.

*Significant at the .05 confidence level Observations = 7,769
**Significant at the .01 confidence level

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

TABLE A.3. LOGISTIC REGRESSION ANALYSIS OF FACTORS AFFECTING WHETHER A WORKER IS ENROLLED IN A DEFINED CONTRIBUTION PLAN RATHER THAN A DEFINED BENEFIT PLAN

Variable	Parameter Estimate	Odds Ratio
Intercept	-0.9758**	-----
Female	-0.6131	1.846
Age 45-64	-0.1382	0.871
African American, Non-Hispanic	-0.0906	0.913
Hispanic	0.1851	1.203
Other Race, Non-Hispanic	0.2617	1.299
Married	0.0424	1.043
Private Sector Employer	.4913	1.634
Wages (in cents)	0.0000	1.000
Hours Per Week	0.0089	1.009
Job Tenure (months)	-0.0019**	0.998
Union Membership	-0.6568**	0.519
Firm Size (10-24 employees)	0.1755	1.192
Firm Size (25-99 employees)	0.1492	1.161
Firm Size (100 or more employees)	-0.3035	0.738

*Significant at the .05 confidence level

**Significant at the .01 confidence level

Observations = 3,528

Source: Authors' calculations based on data from the 1993 Survey of Income and Program Participation Core and Topical Module "Retirement Expectations and Pension Plan Coverage," collected from July to December of 1995 (Wave 9).

[1] In 1998, 75 percent of men aged 65 or older were married compared with 43 percent of women aged 65 or older.

[2] Never-married women and those divorced after only short marriages can be expected to enjoy gains in Social Security benefits based on women's increased life-time earnings. Because of Social Security benefit rules, however, growth in women's Social Security benefits will be smaller than their increased labor force participation might suggest. A married woman is entitled to a benefit based on her own earnings or on half of her husband's benefit, whichever is larger. If widowed, she is entitled to her husband's benefit unless her own is larger. Many women who earn substantially less than their husbands will therefore receive the same benefit or only a slightly larger benefit than they would have received without increasing their labor force participation. Wives with earnings more equal to their husbands will gain more. (The same rules apply to husbands who earn less than their wives and to divorced women and men if the marriage lasted at least ten years.)

[3] Data on pension coverage from the 1996 SIPP panel were not available at the time this report was written, but have since been made available to the public.

[4] Use of defined benefit/defined contribution plans is ascertained from Question 3b of the SIPP survey instrument which asks, "Are the retirement benefits of ...'s (basic) pension plan determined by years of service and pay, or the amount of contributions to the plan?" Information on lump sum payments is covered by Questions 6a-6f. Information on employer size was collected in Question 1a.

[5] Compared to the Current Population Survey (CPS), the SIPP generally finds higher rates of pension participation (Short and Nelson 1991). One reason is that the CPS asks the question on pension participation of anyone who worked over the last year, while the SIPP asks the question on pension participation of anyone who worked over the last four months (a smaller universe of workers). Unlike the CPS, the SIPP directly inquires about 401(k) plans that respondents to the CPS may not consider a pension, especially if the employer does not contribute to the account. Another factor may be that the SIPP has fewer proxy interviews than the CPS. In this analysis, we include 401(k) plans as pensions.

[6] Researchers generally find that about 60 percent of all wage and salary employees work for an employer that sponsors a pension plan of some kind (Purcell 1999).

[7] The SIPP questionnaire asks respondents if their retirement benefits will be based on years of service and pay, by the amount contributed to the plan, or by another method. In this analysis, a respondent whose benefits will be based on years of service and pay is said to be in a defined benefit plan. A respondent whose benefits will be based on the amount of contribution is considered to be in a defined contribution plan.

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