

Improving Retirement Security for Women

Among recent proposals to change retirement plans are those designed to improve benefits for women. They involve crediting service during periods of leave under the Family and Medical Leave Act, and expanding the options available for survivor pensions.

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To protect employee retirement benefits, employer-provided retirement plans contain a wide array of provisions, including some required by law. For example, plans are required by law to include vesting provisions, which dictate that after a certain time period a covered employee earns a nonforfeitable right to future benefits, regardless of whether or not the employee continues employment under that plan.¹ Policymakers have recently discussed proposals for increasing retirement plan protection for women,² making it easier to satisfy plan vesting requirements, and offering more options for survivor benefits. This article examines the current law regarding these topics and how employer-provided plans are presently handling these issues.

These potential changes in retirement plans are not limited to female employees, although they are more likely to affect women than men. The first type of proposal involves the calculation of time at work for purposes of determining vested benefits—the nonforfeitable right to future benefits. In one example, time taken off under the Family and Medical Leave Act would count toward meeting vesting service requirements. Because data indicate that women are more likely than men to take time out of the labor force for child raising or other care-giving responsibilities, the availability of family leave and the proposal to credit service during that leave will better meet their particular needs.³ The second type of proposal involves expanding the options available under the survivor protections of certain retirement plans to allow larger payments for widows and widowers.

This change would also more likely benefit women because a greater proportion of men have employer pensions, meaning a greater proportion of women rely on survivor benefits. In addition, women have a longer life expectancy than men, making them more reliant on survivor benefits.⁴

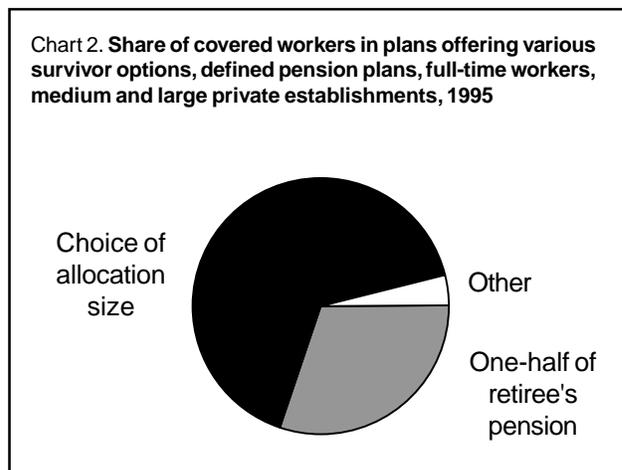
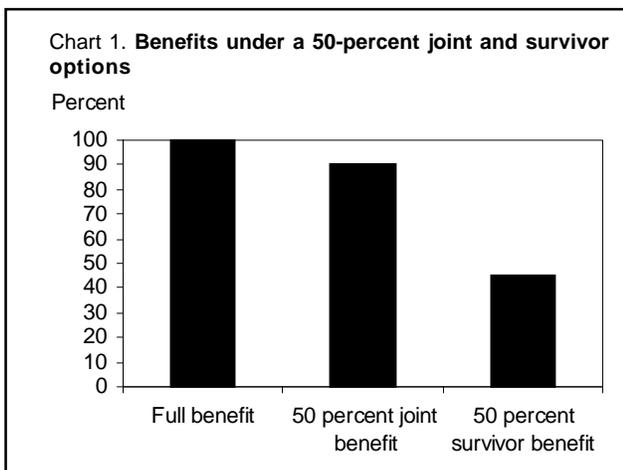
Crediting service

The length of service an employee has with the employer or under an employer plan is an important determinant of future benefits. Length of service determines when an employee can join a plan, when the individual becomes vested, and when benefits may be paid. In general, 1 year of work yields 1 year of credited service toward retirement, although some plans use a threshold of total hours worked in a year. Individuals taking time off for family or medical reasons may not meet the minimum requirements for service in a year.⁵

The Family and Medical Leave Act applies to employers who have 50 or more workers. Under the Act, employees who have worked for an employer for at least 1 year are entitled to take up to 12 workweeks of unpaid leave each year for the birth of a child, placement of a child for adoption or foster care, care of an immediate family member with a serious health condition, or care of a personal health condition. Employers are required to continue to provide health insurance coverage during the period of leave, and are required to place a returning employee in the same or an equivalent job. The law does not, however, address the issue of crediting service toward tenure with the employer or crediting service under a benefit plan, such as a retirement income plan.⁶

If individuals on leave under the Act are not continuing

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to accrue credited service toward a retirement income plan, break-in-service rules may take effect. By law, a retirement plan does not have to credit service during periods of non-work. In addition, if the period of non-work exceeds certain thresholds, a retirement plan may require that returning employees once again meet certain service requirements before rejoining the plan. In general, these rules vary by the amount of service under the plan prior to the break and the length of the break. For example, a plan may state, “service before a one-year break in service can be disregarded until the participant has completed one year of service after the break.”⁷ Further, if the individual was not vested prior to the break in service, if the break is longer than the prior service, that prior service may be disregarded.

Special provisions designed to avoid breaks in service exist under certain circumstances. For example, certain periods of absence for maternity or paternity reasons must be treated as though the individual was at work.

Survivor protection

While the credited service proposal would apply to both defined contribution and defined benefit retirement plans, the second proposal, to expand the options for survivor protection, is specifically geared toward defined benefit plans. Defined contribution plans specify employer and employee contributions; future benefits are determined by the amount of those contributions and earnings on those funds. Benefits are not guaranteed. Payments are usually made in a lump sum at retirement, although employees may have the option to receive payments over time. In contrast, a defined benefit plan specifies a formula for determining future benefit amounts, typically based on earnings and years of service. Employers make sufficient contributions to the plan to pay for future benefits. The Federal Government maintains an insurance system to guarantee benefits from these plans. Payments are generally in the form of a monthly benefit for life, with a variety of options designed to provide survivor protection.

The law required survivor options in defined benefit pen-

sion plans for the first time in 1974, with the passage of the Employee Retirement Income Security Act (ERISA). At that time, defined benefit plans were required to include a joint-and-survivor option for benefit payments. Under such an option, a retiring employee could choose to receive a full benefit or could choose to take a reduced benefit in return for the continuation of benefits for a survivor following the death of the retiree. Plans were required to offer a 50-percent joint-and-survivor option. Under such an arrangement, the retiree and spouse received a reduced benefit upon retirement (the “joint” benefit), and the surviving spouse received 50 percent of that reduced benefit upon the death of the retiree (the “survivor” benefit).⁸ Chart 1 provides an example of the level of benefits that might be received under such an arrangement. The amount of the reduction varies by the age of the retiree and spouse. In the example shown, the reduction is 10 percent of the full benefit. This is typical of benefits paid to a retiree age 65 with a spouse also age 65.

A change in the ERISA joint-and-survivor law in 1984 made the 50-percent joint-and-survivor benefit the standard benefit for married individuals. In the past, the retiree could choose to provide survivor benefits; under the revised law, written consent of the spouse is needed to decline the 50-percent joint-and-survivor benefit.⁹

Although the law requires defined benefit pension plans to offer the option of a 50-percent joint-and-survivor benefit, there is no restriction on other options. One proposal that has been debated would require that all defined benefit pension plans offer an option that pays a survivor at least 75 percent of the joint benefit. Under such an option, at retirement the retiree and spouse would take a greater reduction in their joint benefit than under a 50-percent joint-and-survivor benefit. In return, at the death of the retiree, the spouse would receive 75 percent of the joint benefit.

Providing multiple options for survivor benefits is not a new idea. In fact, two-thirds of full-time employees in medium and large private establishments in 1995 who were covered by a defined benefit pension plan had a choice of

survivor protection levels. (See chart 2.) Typically, such plans offer 50- and 100-percent joint-and-survivor options. Under the 100-percent option, the joint benefit is reduced more than under the 50-percent option, but there is no reduction in benefits after the retiree dies, that is, the surviving spouse receives 100 percent of the joint benefit. Other survivor options include 67 and 75 percent, with corresponding reductions in the joint benefit. Data for full-time employees in small private establishments in 1992 also indicate that two-thirds of those covered by a defined benefit pension plan had a choice of more than one survivor option.¹⁰

Employee benefits data

The Bureau of Labor Statistics produces a regular series of data on the incidence and provisions of employer-provided benefits. These data are frequently used to provide background information to policymakers regarding changes in benefit and tax law. Data from these surveys provide details on current practices regarding crediting service and survivor benefits, as these reform proposals are considered. Additional information can be obtained at <http://stats.bls.gov/ebshome.htm>, the Bureau of Labor Statistics' Internet site. ■

¹ For a detailed discussion of vesting provisions in employer-provided retirement plans, see Avy D. Graham, "How Has Vesting Changed Since Passage of Employee Retirement Income Security Act?," *Monthly Labor Review*, August 1988, pp. 20-25.

² For example, see "Remarks at Roundtable Discussion on Women and Retirement Security," White House news release, October 27, 1998.

³ The Family and Medical Leave Act of 1993 created a commission charged with examining the effect of the new law on workers and employers. The report of that commission may be found in *A Workable Balance: Report to Congress on Family and Medical Leave Policies* (Commission on Family and Medical Leave, 1996). This report includes information on the need for and use of family leave. Data from the Social Security Administration, Office of the Chief Actuary, demonstrate that women often take time out of the labor force: Of those workers retiring in 1996, the median length of time worked was 27 years for women, compared with 39 years for men.

⁴ Current life expectancy data indicate that women age 65 can expect to live about 20 years, while men at the same age can expect to live about 16 years. For further information on life expectancy, see U.S. Department of Health and Human Services, Public Health Service, *Health United States 1994* (Washington, D.C.: U.S. Government Printing Office, 1995). More information on retirement benefits for men and women may be found in *Report*

on the American Workforce (U.S. Department of Labor, 1997) chapter 3.

⁵ Rules for crediting service for employer retirement plans are very complex, and include a number of exceptions and alternative methods of calculation. For more information, see Dan M. McGill and Donald S. Grubbs, Jr., *Fundamentals of Private Pensions* (Homewood, Illinois: Irwin, 1989).

⁶ For more details on the provisions of the Family and Medical Leave Act, see *A Workable Balance: Report to Congress on Family and Medical Leave Policies*.

⁷ McGill and Grubbs, *Fundamentals of Private Pensions*, pp. 160-61.

⁸ The full benefit is reduced to account for the availability of a survivor benefit.

⁹ For a discussion of survivor benefits under defined benefit pension plans, see Donald Bell and Avy Graham, "Surviving Spouse's Benefits in Private Pension Plans," *Monthly Labor Review*, April 1984, pp. 23-31. For information on benefit amounts payable under different defined benefit plan options, see William J. Wiatrowski, "New Survey Data on Pension Benefits," *Monthly Labor Review*, August 1991, pp. 8-22.

¹⁰ Complete results of these surveys may be found in *Employee Benefits in Medium and Large Private Establishments, 1995*, Bulletin 2496 (Bureau of Labor Statistics, April 1998); and *Employee Benefits in Small Private Establishments, 1992*, Bulletin 2441 (Bureau of Labor Statistics, May 1994).