INDEPENDENT WOMEN'S FORUM

Testimony of Nancy M. Pfotenhauer, President

Independent Women's Forum

At July 7 , 2004 Hearing Of

The Committee on Education and Workforce

On

"Examining Cash Balance Pension Plans: Separating Myth from Fact"

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Mr. Chairman and distinguished members of the Committee, thank you very much for the opportunity to be here today. My name is Nancy Mitchell Pfotenhauer and I am president of the Independent Women's Forum. IWF is a non-profit, non-partisan public policy organization that focuses on issues of importance to women.

To give you some context, our organization was founded more than a decade ago, and counts among its National Advisory Board women who have served at the highest levels in federal office. In fact, Department of Labor Secretary Elaine Chao, Undersecretary of State Paula Dobriansky, and Assistant Attorney General for Tax Policy Eileen O'Connor have all served on our National Advisory Board. Our Board of Directors and Advisors have run divisions of OMB, the Treasury Department, and chaired and served on several independent regulatory agencies.

I personally have served as Economic Counsel to a member of the Senate Leadership who sat on the Budget, Banking and Finance Committees. Subsequent to that, I was the Chief Economist of a Cabinet-level regulatory review body. After serving time as Director of the Washington office of a $48 billion diversified energy company, I transitioned from IWF's Board of Directors into my current position.

Let me begin by explaining what IWF is **not**. It is not a grassroots organization focused on mobilizing large numbers of our fellow citizens. Rather we are a group whose members are legal scholars, economists, academicians, historians and foreign policy experts who hope to apply our professional experience to impact the formulation of public policy. As such, again let me thank you for the opportunity to appear before this committee and participate in a candid and constructive discussion concerning cash balance pension plans.

As you probably know, the labor force participation rates of women – unlike men -- have been increasing across age groups. Women in the 45- to 54- age group saw the greatest jump in their participation during the 1980-90 timeframe, clocking in with an increase of almost 11 percent. This same cohort again saw the greatest increase in participation in the 1990-2000 (when they were aged 55-64). It is important to note, however, that for the 2000-2010 period, this group will lose their title to a group of younger women aged 25-34.

This comes as no surprise to the Independent Women's Forum – and probably no surprise to this committee. The combined work of the Bureau of Census and the Bureau of Labor Statistics simply provides the quantitative evidence of what we have all observed in American society. Simply put, more women are working more often while still balancing the pressures of home and family.

And, by and large, this is a truly positive indication of the tremendous progress women have made in our country. Presently, women earn the majority of the undergraduate degrees, the majority of master's degrees and – within the next decade – are expected to earn the majority of Ph.Ds. Right now, young women comprise roughly sixty percent of the students attending law school here in the United States.

So, the upside of this story is that women are achieving educational and professional goals only dreamed of in other countries. The challenge from a retirement security standpoint, however, is that we refuse to compromise our roles as mothers and caregivers on the altar of professional accolades. Specifically, women still tend to take time out of the workforce in much greater numbers than men in order to care for young children or elderly members of our family. Having five children between the ages of 10 and 16, this particular point really strikes home with me.

Why has IWF gotten involved in this debate over pension policy? Because the national poverty rate for women 65 and older is almost twice that of men. The average age of widowhood in the United States is 56; fully eighty percent (80%) of widows now living in poverty weren't poor when their husbands were alive. The likelihood of poverty increases with age, particularly for minority women. The gap between Social Security benefits for women and men is slowly narrowing, but the difference between pension benefits is increasing rapidly.

What is driving this phenomenon? We fundamentally reject the notion that our current systems were somehow designed to be biased against women. In fact, historical records reveal that the social security system was, if anything, originally designed to benefit women. Unfortunately, through no ill-intent, the framers of that system failed to accurately predict societal trends and future workforce demographics.

Right now, several specific factors drive the discrepancy between men and women in their later years. First, and perhaps most importantly, women live longer then men. To put it bluntly, we may outlive our savings. The average life expectancy at 60 years of age for women is 83 and for men is78. By 2050, five percent of the baby-boomer population will be more than 100.

Despite our relative longevity, or perhaps *because* of it, women tend to have more chronic health problems than men, resulting in higher health care costs during retirement. And, if a woman hasn't seen her financial health plummet because her husband died, she's likely to be hit hard through a divorce. Statistics have shown that immediately following divorce, women 50 and older experience a 39 percent decline in income, whereas men's incomes fall only 14 percent. One year after divorce, fully 40 percent of men have regained their pre-divorce incomes; about half that percentage (21) of women have climbed back.

Perhaps most relevant for this discussion, however, is the fact that women change jobs more often then men. We average 4.8 years with each employer and, therefore, may not stay at a job long enough to be vested in traditional retirement plans. Because women are more likely to leave the job market to handle family responsibilities, we average 11.5 years out of the workforce compared to 1.3 years for men. With our earning record interrupted, we not only lose the opportunity to vest, but we have fewer years in which to contribute to retirement plans.

In the opinion of the Independent Women's Forum, traditional retirement and pension approaches simply fail to meet the needs of our changing society. Succinctly, they do not reflect the work patterns and demographics of American women. Whether it's the *Wall Street Journal* or *Family Circle* magazine, today's commentators agree that movement in and out of the workforce for American mothers has become the "new normal." In fact, many are noting a current trend of mothers going **back** home when their children become teenagers. In earlier times, moms simply stayed home when their children were young – now we're worried about the lack of oversight of our teenage children in an increasingly complex culture. Regardless of the reason, this phenomenon, called "sequencing," appears here to stay.

Luckily, pension innovations in the private sector hold promise. Cash balance, pension equity and other hybrid pension plans combine attractive features of a traditional defined benefit plan (employer funding, employer assumption of risk of poor investment, government insurance and spousal protections) with attractive features of a defined contribution plan (individual accounts, an easily understood benefit formula *and portability*).

These modernized pension arrangements have evolved to suit today's more mobile workforce and respond to employee preferences for transparency, portability and the accrual of more meaningful benefits **earlier** in a career.

As you know, unlike traditional defined benefit plans where a significant portion of the benefits go to the relatively few workers with very long service, benefits in so-called hybrid plans grow more evenly over a worker's career and are distributed more equitably across short-, medium-, and long-service workers. For the vast majority of employees who no longer spend a full career with one employer, a hybrid plan will produce higher benefit levels than a traditional benefit plan at equal cost.

We believe the emergence of hybrid plans is encouraging news for many and a cause for particular hope among women. In fact, one benchmark study done in 1998 by the Society of Actuaries found that an amazing 77% of women do better under a cash balance approach. They are better off under a cash balance system because they move in and out of the workforce in order to balance family needs and because *they cannot afford* to take early retirement[1]. Despite this promise, it is clear that controversy exists about how firms should transition to hybrid plans. Many have questioned the fairness of changing pension approaches for employees over 40 years of age.

An alternative perspective, and one that IWF believes has credence, is that any adoption of restrictions that effectively limit the ability of companies to transition to hybrid plans places the financial well-being of the relatively few employees who have had the luxury of staying with one company for a long period of time (decades), have the luxury of taking early retirement, and have the luxury of taking their pension benefit in the form of an annuity rather than as a lump sum, ahead of all of the employees who do not have these options.

Regardless of one's perspective, any discussion about transition is appropriately done within the context of a clear understanding that these plans are voluntarily sponsored by employers. As such, an employer currently could decide to freeze benefit accruals or completely terminate plans altogether if costs become too burdensome. Experience has shown us that many more plans have fallen victim to this fate over the past decade than have transitioned to hybrid plans.

As such, an overarching concern we have in making these new approaches viable is that Congress avoid the seductive panacea of mandating choice between traditional defined benefit and cash balance plans. Unfortunately, some analysts believe that mandating choice in such a manner could result in employees being faced with a "worst of both worlds" situation. Specifically, employers could make changes to their traditional plans that remove aspects most valued by some of their employees, while ironically being constrained from offering the off-setting attributes of a cash balance plan.

As pointed out by pension experts Olivia Mitchell and Janemarie Mulvey at the University of Pennsylvania's Wharton School, under an approach that mandates choice in circumstances when an employer seeks to convert to a hybrid plan (but not other changes), an employer could eliminate early retirement subsidies without providing choice, but the employer "could not at the same time provide the more portable and more understandable cash balance benefit without offering employees a choice to keep early retirement subsidies."[2]

[1] Kopp and Scher. Society of Actuaries. "A Benefit Value Comparison of a Cash Balance Plan with a Traditional Average Pay Defined Benefit Plan." October, 1998.
[2] Mitchell, Olivia S. and Janemarie Mulvey. Working paper/PRC WP 2003-25. "Possible Implications of Mandating Choice in Corporate Defined Benefit Plans." Pension Research Council, The Wharton School, University of Pennsylvania: 17.

Obviously the solution does not rest in mandating choice for every plan change. To do so would only facilitate the death of the defined benefit system – a system which offers noted attributes in the form of employer contributions and employer assumption of risk.

The problem before this committee is complex and worthy of objective analysis focused on providing a solution that fits the changing nature of America's economy and workforce. The Independent Women's Forum believes that portability is a real and growing need as we look to the future of working women in this country. As such, we strongly urge Congress to act in a manner that recognizes the attributes of new approaches like the cash balance and other hybrid plans, and keeps in mind that the one law that cannot be amended is the law of unintended consequences.

Thank you again for your time and your attention to this very important matter.

Committee on Education and the Workforce

Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name:		
1. Will you be representing a federal, State, or local government entity? (If the answer is yes please contact the Committee).	Yes	No X
2. Please list any federal grants or contracts (including subgrants or subcontracts) which <u>you have received</u> since October 1, 1998: N/A		
3. Will you be representing an entity other than a government entity?	Yes X	No
4. Other than yourself, please list what entity or entities you will be representing: The Independent Women's Forum, a 501C(3) organization.		
5. Please list any offices or elected positions held and/or briefly describe your representational capacity with each of the entities you listed in response to question 4: I am President of IWF and also serve on its Board of Directors.		
6. Please list any federal grants or contracts (including subgrants or subcontracts) received by the entities you listed in response to question 4 since October 1, 1998, including the source and amount of each grant or contract: N/A		
7. Are there parent organizations, subsidiaries, or partnerships to the entities you disclosed in response to question number 4 that you will not be representing? If so, please list: The Independent Women's Voice, IWF's 501 c(4) affiliate; Americans for Prosperity Foundation c(3); Americans for Prosperity c(4)	Yes ✓	No

Signature: Nancy M. Pfotenhauer Date: 7/6/04

Please attach this sheet to your written testimony.

Nancy Mitchell Pfotenhauer

President of Independent Women's Forum

Nancy Mitchell Pfotenhauer joined IWF in 2001 from Koch Industries, where she was director of the Washington Office. Koch Industries is the second largest privately held company in the United States. At Koch, Pfotenhauer experienced first-hand the legislative and regulatory labyrinth that faces American companies and ultimately impacts consumers.

Ms. Pfotenhauer brings to IWF extensive experience in relating public policy issues to the media and public. As a daily morning talk show host for NET (carried on cable and television networks nationwide), she made the case for free market policy solutions to problems facing the nation. She has also appeared on the CNN, ABC, NBC, and FOX networks. In 1994, she appeared on the cover of the *National Journal*, which called her one of the rising starts in D.C. *Newsweek*, *George Magazine*, the *Wall Street Journal*, and the *Washington Post*, among other publications, have covered her television work.

Nancy Mitchell began her career in Washington, D.C. in 1987 as a Senior Economist at the Republican National Committee and was promoted to Chief Economist in 1988. Selected by the Bush transition team at age 24, she served as the economist for the independent agencies task force for President-elect George Bush, overseeing the policy, budget, and personnel recommendations for both the Federal Trade Commission and the Interstate Commerce Commission. For the next two years she worked as Economic Counsel to Senator William Armstrong, a member of the Republican Leadership serving on both the Finance and Budget Committees. In 1990, she was appointed Chief Economist of the President's Council on Competitiveness, involving daily interaction with the highest-level career and political personnel at OMB, EPA, DOE, DOT, USDA, Interior, and Treasury. She has also served as Executive Vice President at Citizens for a Sound Economy (CSE).