Caregiving and Retirement Planning: 
What Happens to Family Caregivers Who Leave the Work Force

POLICY BRIEF

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ABOUT FCA

Founded in 1977, Family Caregiver Alliance serves as a public voice for caregivers, illuminating the daily challenges they face, offering them the assistance they so desperately need and deserve, and championing their cause through education, services, research and advocacy.

Long recognized as a pioneer among caregiver organizations, FCA operates programs at local, state and national levels. FCA is the lead agency and model for California’s statewide system of Caregiver Resource Centers. In 2001, FCA established the National Center on Caregiving to advance the development of high-quality, cost-effective policies and programs for caregivers in every state in the country.

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INTRODUCTION
Informal caregiving is a catch-all phrase that refers to unpaid care and financial support provided by family or friends to people with chronic illness or disabilities. It is the backbone of our nation’s long-term care system. Caregiving can include providing assistance over an indefinite time period, for instance for a parent with Alzheimer’s disease or a spouse who has suffered a stroke, or can be more time-limited in nature. The care that is provided by family, friends and neighbors covers a wide range of assistance—help with household chores, eating or bathing, or providing transportation and financial support, for example—and meets a variety of needs. For instance, a Fact Sheet prepared by Family Caregiver Alliance (2001) indicates that:

- Caregivers of people aged 50+ spend an average of 17.9 hours per week providing care. This figure increases to 20 hours per week among those providing care for individuals aged 65+.
- 20% of those caring for family or friends aged 50+ spend more than 40 hours per week providing care, with some providing constant care.

As many as 52 million Americans, or 31 percent of the adult population, are informal caregivers (US Department of Health and Human Services, June 1998). Almost one-quarter of American households provide care to relatives or friends age 50 or older. Informal caregivers provide an irreplaceable service, estimated at $257 billion annually (Arno, 2002). When formal home care expenditures are added to the “public good” of informal care, the economic value of community-based care dwarfs the value of institutional care by a ratio of nearly three to one. In fact, informal caregivers provide more care in the home—free of charge—than the federal government provides in all settings combined (Arno, Levine & Memmott, 1999).

This policy brief addresses the impact of caregiving on retirement income. Included is:

- Background information on the four major ways that retirement security can be affected by caregiving activities;
- The unique challenges that women caregivers face; and
- The policy considerations that would contribute to a more coherent system of retirement savings for family caregivers.

BACKGROUND
The fiscal toll on informal caregivers includes reduced wages and reduced job security in the near-term. The long-term consequences can be just as challenging, however, particularly as they relate to financial status during retirement. Four main factors can have an impact on retirement savings for family and informal caregivers. These factors center around workforce participation and include:

Reduced Social Security benefits based on earnings
- Low lifetime earnings can result from the wage gap, and from working in traditionally
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low-paying fields (i.e., service industry), part-time work and time spent out of the workforce. Retiring before the normal retirement age can also reduce benefits.

**Limited access to employer-sponsored pensions**
- Pension contributions are usually tied to salary; part-time and/or low-paying fields are less likely to include pension coverage.

**Moving from full-time to part-time work, or taking leave**
- A full-time employment schedule may not be attainable for some working Americans, particularly those providing time-intensive care for a loved one. Caregivers may also choose to leave the workforce permanently to provide care, or take extended leave as necessary and as allowed by an employer.

**Limited personal savings**
- Caregiving is expensive. Some caregiving families may spend down their savings to pay for the high costs of disability and chronic illness, or to qualify for Medicaid benefits, leaving few, if any, assets for their own retirement.
- Time out of the workforce, and time off from receiving a paycheck, may reduce the ability to save money for future needs.

**Reduced Social Security benefits based on earnings**
Social Security contributions—and benefits paid in retirement—are directly tied to wages. Lower lifetime earnings and less time in the workforce mean a lower Social Security benefit. The computation of Social Security benefits is based on a progressive benefit formula so that lower earners essentially receive a higher rate of return when they retire. This formula, however, does not take into account the unique work patterns of family caregivers. As a result, one study found that caregivers may not realize as much as $2,100 annually in Social Security benefits as a result of caregiving (Metlife Mature Market Institute, National Alliance for Caregiving & the National Center on Women and Aging, 1999). Considering that for retired workers the average monthly Social Security benefit in 1999 was $804, this can make a real difference for caregivers in retirement, who, like many older adults, may be living on fixed incomes (Social Security Administration, 2000).

Retirement age can also significantly impact Social Security benefits. The normal retirement age, or NRA, is the age at which full Social Security benefits can be obtained. Currently the NRA is set at 65, but is increasing over time to 67, based on age cohorts (Social Security Administration, 2003). Under current policy, persons can retire as early as 36 months before the NRA; however, early retirees are effectively penalized by a benefit reduction of as much as 25 percent, depending on how early the retirement is taken (Social Security Administration, 2003).¹

Because as many as 13 percent of working caregivers may leave the workforce earlier to provide care for a family member, the benefit reduction can have a serious impact on retirement income (Metlife Mature Market Institute, National Alliance for Caregiving & the National Center on Women and Aging, 1999). This is due, in part, to the major role that Social Security plays in retirement. In fact, for 17 percent of older adults, Social Security is the only source of retirement income, and for another 25 percent of older people, it is the primary resource, representing around 90 percent of total retirement income (AARP, 2000).

¹ According to the Social Security Administration, “a benefit is reduced 5/9 of one percent for each month before the normal retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 3/12 of one percent per month” (Social Security Administration, 2003).
More limited access to employer-sponsored pensions

Retirement savings are often described in terms of a “three-legged stool.” One leg represents Social Security benefits, the second retirement savings, and the third, employer-sponsored pensions. In 1993, almost 45 percent of all workers had some type of employer-sponsored retirement plan; 52 percent of workers had some type of retirement coverage (AARP Public Policy Institute, 2000). Access to pensions differ by both race and gender, however. For instance, those with incomes of $30,000 and above are more likely to have some type of retirement plan coverage; minorities are much more likely than whites to lack retirement plan coverage from any source (AARP Public Policy Institute, 2000).

Moving from full-time to part-time work

For some working Americans, juggling caregiving and work responsibilities is a common practice, and can include arriving late/leaving early (69%), taking time off during the day (67%), or working weekends (29%). In contrast, others must make more formal work changes, such as taking a leave of absence or moving from full- to part-time work (Metlife Mature Market Institute, National Alliance for Caregiving & the National Center on Women and Aging, 1999). In fact, one national study found that for working caregivers (Metlife Mature Market Institute, National Alliance for Caregiving & the National Center on Women and Aging, 1999):

- 64% used sick days/vacation time
- 33% decreased hours
- 22% took a leave of absence
- 20% went from full- to part-time work

Another study found that a full 27 percent of employed caregivers reduced their work hours, while 19 percent reported taking some time off work without pay (Pavalko & Artis, 1997).

Combined, a full two-thirds of working caregivers providing assistance to a family or friend aged 65+ reported having to decrease work hours or take unpaid leave in order to meet their caregiving responsibilities (US Department of Health and Human Services, 1998).

Personal savings can be limited

The sacrifices that informal caregivers routinely make during midlife—a peak earning period—reduce lifetime earnings and retirement savings. It is estimated that caregivers lose an average of $550,000 in total wage wealth as a result of caregiving (Metlife Mature Market Institute, National Alliance for Caregiving & the National Center on Women and Aging, 1999). These figures would be even larger if losses associated with childcare responsibilities were included. Another study showed that for 40 percent of caregivers surveyed, caregiving responsibilities affected their ability to advance in their jobs (National Alliance for Caregiving & AARP, 1997). These forgone wages may also be a forgone opportunity to save—an integral part of retirement security.

WOMEN CAREGIVERS AND RETIREMENT SAVINGS

While the effects of caregiving on retirement savings are gender-neutral, because most caregivers are women—usually adult daughters—other workforce factors may coalesce to intensify retirement savings challenges for this group of caregivers (Family Caregiver Alliance, 2001).
The typical informal caregiver is a married woman in her mid-forties to mid-fifties. She is employed full time and also spends an average of 20 hours per week on caregiving (US Department of Health and Human Services, 2002). In addition to juggling a career and caring for a parent, partner or spouse, the typical caregiver may be the primary caregiver for her children and, increasingly, for her grandchildren as well. Between 20 and 40 percent of caregivers are members of the “sandwich generation,” caring for children under age 18 in addition to older family members (Feinberg & Pilisuk, October 1999).

Nearly three-quarters of the informal caregivers to older people are women (National Alliance for Caregiving & AARP, 2002). On average, women provide 50 percent more hours of informal care per week than men. Women also provide informal care for longer periods of time than men—in many cases, for more than five continuous years (US Department of Health and Human Services, June 1998). Further, lower-income women are more likely to have a family member who needs care and lives with them (Hounsell, Humphlett & Lewis, 2002).

All told, lower lifetime wages, workforce segregation and a greater proclivity to move in and out of the workforce raising children and caring for ill or disabled family and friends, severely impact women’s retirement income (National Academy of Social Insurance, 2000; AARP Public Policy Institute, 2000). For example, when women retire from the workforce, they generally have smaller pensions—almost half the size of men’s—and fewer assets (National Women’s Law Center, 2002). One study found that for women who did receive income from private pensions or annuities, their median annual benefit was $4,164, compared to a median benefit of $7,768 for men (Hounsell, Humphlett, & Lewis, 2002). In 2000, the median personal income for women age 65 years and older was $10,899. For men in the same age group, it was $19,168 (Hounsell, Humphlett, & Lewis, 2002).

Social Security benefits also tend to be lower for women than for men. In 2000, women’s benefits were more than twenty percent less than men’s ($730 vs. $951) (Hounsell, Humphlett, & Lewis, 2002).

**POLICY RECOMMENDATIONS**

*Expand the Family and Medical Leave Act (FMLA)*

Several changes could be made to the FMLA that would assist family caregivers in better preparing for retirement. First, augmenting current provisions to include workers on the job less than the current minimum of 1,250 hours a year, or who have worked for a particular employer for less than a year, would better reflect caregivers’ variable work patterns.

Second, many caregivers simply cannot afford to take unpaid family and medical leave. Providing wage replacement through state law, similar to the law passed in California in 2002, might assist caregivers’ ability to contribute to a retirement savings vehicle. Additionally, allowing workers taking leave to continue contributing to Social Security would reduce the long-term impact of caregiving on Social Security benefits in retirement. It is important to note, however, that some caregivers may not be able to afford to take leave and continue making contributions.

Finally, expansion of worker benefits that are protected under law would provide some assistance to caregivers. Like the mandatory continuation of health benefits under current law, the FMLA should require that employers continue contributing to qualified retirement plans during a covered leave period. This requirement would mitigate some of the financial risk associated with caregiving.
While these proposals would better assist caregivers, employers may be resistant to expanding FMLA policies. Legislation introduced in the 108th Congress would assist in FMLA expansion. The Family and Medical Leave Expansion Act (S. 304) would provide grants to states that assist families by providing wage replacement to care for a loved one with a chronic disease or disability. States could then determine what, if any, employer incentives could be initiated to offset any potential costs.

Strengthen Social Security by Recognizing the Work of Informal Caregivers

Because wages directly impact Social Security benefit levels, informal caregivers who work less than full time, or who take a leave of absence from work, could be better protected in retirement.

Social Security benefits are calculated, in part, on average yearly earnings over a 35 year period. Because caregivers often take time out of the workforce, reducing the benefit computation period would assist in “disregarding” years of lower, or no, earnings. For example, a worker who moves from full-time to part-time work, or who leaves the workforce temporarily to provide care, should not have that period of lower (or no) income included in the Social Security benefit formula. Proposals such as providing up to five years of “credits” into the Social Security system—accounting for some of the time taken out of the workforce—have been discussed in the policymaking arena, most notably in the 2000 presidential campaign. Former Vice-President Al Gore advocated for incorporating these “credits” as one way to ameliorate the impact of caregiving on retirement income (Erickson & Gomes, 2000). Alternatively, the five lowest years of earnings could be “topped up” to a fixed level, which would target these credits to lower- and moderate-income caregivers (National Women’s Law Center, 2003).

Improve Pension Coverage for Caregivers in the Paid Workforce

Federal pension law should be revised to better protect the retirement security of caregivers. While pension reform would benefit many workers, it particularly resonates with the needs of family and informal caregivers. In 2001, Congress changed the rules surrounding some retirement savings plans. One major effect was reducing the vesting requirement from five to three years. With this reduction, caregivers who move in and out of the workforce are more likely to retain employer matching contributions given the shorter vesting period.

More can be done, however. Employers should not be allowed to exclude part-time and temporary workers from pension benefits or contributions as the law currently permits.

Enhance Existing Dependent Care Tax Credits

The existing Child and Dependent Care tax credit is designed to compensate in a small way for the childcare costs of working parents, or for care for a disabled dependent. The definition of “dependence” is too restrictive to be of use to most family caregivers, however. Easing the “dependence” test—for example patterning it after California’s more liberal credit—would enable more family caregivers to take advantage of this credit. Making the credit refundable would provide additional assistance to lower-income caregivers who may not have the tax burden sufficient enough to file taxes.
At the federal level, more general tax credits for family caregivers have been introduced in successive legislative sessions, and have ranged anywhere from $1,000 to $5,000. In the 108th Congress, the Family Caregiver Relief Act of 2003 (S. 1214) would provide a $5,000 credit, renaming the existing Child Tax Credit as the Family Care Credit (Congressional Research Service, 2003). It is important to note that while the benefits of these tax credits are limited, they can make a difference in the often high costs of providing care, and may better assist some family and informal caregivers in saving for their own retirement needs.

**Make Dependent Care Spending Accounts Applicable to Eldercare**

Dependent care spending accounts offered by employers to employees have been successful in offsetting childcare expenses, but have been less successful with expenses related to eldercare. The accounts would be useful to workers with eldercare costs if federal tax policy were changed to allow more claims for eldercare. For example, the definition of “dependence” should be modified so that the adult receiving care would not be required to spend eight hours a day in the home of the worker in order to qualify. Current rules also require that any unused portion of the spending account revert to the employer at the end of the year. Allowing unused funds to roll over at year’s end would permit greater flexibility for eldercare costs, which, unlike childcare, can vary significantly and unpredictably from year to year. Additionally, employees should have at least two opportunities during the course of a year to establish and fund a dependent care spending account; current law permits only one opportunity per year.

**CONCLUSION**

The U.S. lacks an effective system to address the effects of caregiving, not just as it relates to the physical and emotional toll that caring for a loved one can take, but also in terms of short- and long-term financial consequences. Caregivers often make major sacrifices to keep loved ones at home, where they prefer to be, but then must face the *de facto* penalty of this sacrifice long into the future. While incremental steps at the local, state and national levels have been taken to provide some measure of caregiver support, there has been no systematic state or national strategy to address the financial toll of caregiving.

With long-term care costs exploding, demographic trends indicate the likelihood of increasing pressure on families, and a system not really designed to meet their needs or the needs of their loved ones. Caregiving initiatives must include ways to ameliorate the financial consequences of caregiving; workforce initiatives must recognize and develop ways to reduce the impact on wages and pensions, while Social Security and Family and Medical Leave laws must be modernized to better address caregivers needs in retirement.
REFERENCES


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