“Women in Retirement”

Women are more likely to save than men. They are better investors than men. And they’re more likely than men to use a financial advisor.

When it comes to saving and investing, “women do it a little bit better,” said Jean Young, a senior research analyst at Vanguard. An October 2015 study by Vanguard showed that women tend to save more, on a percentage basis, in their 401(k) plans than their male counterparts. “They are more likely to be in the plan, they save more when they are in the plan, they trade less, and they take advantage of professional management,” Young added.

In spite of those efforts, women are well behind men when it comes to being prepared for retirement. A Financial Finesse report, 2015 Gender Gap in Financial Wellness, found that there is a 26 percent gap between what the mean 45-year-old man and the mean 45-year-old woman will need in retirement to replace 70 percent of their income plus healthcare costs. Consider these numbers from the Financial Finesse report:

	Men	Women
Median Income:	$45,292	$37,388
Average Savings Rate	6.8%	7.0%
Median Retirement Savings	$63,875	$43,446
Annual Retirement Income Needed	$57,264	$47,268
Length of Retirement	19.3 yrs.	21.6 yrs.
Healthcare costs	$275,035	$294,975

The reasons women lag are clear.

- They live longer than men therefore they need more lifetime income. According to the Social Security Administration, the life expectancy of today's 65-year-old man is 84.3 while today's average 65-year-old women can expect to live to 86.9.

- Women face higher healthcare costs. Based on 2010 data from the Centers for Medicare and Medicaid Services, out-of-pocket medical expenses for women 65 and older totaled $2,721 per person, 31 percent more than what was spent by men of the same age. Long-term care insurance can help offset some of those costs, but women should expect to pay 40 percent to 60 percent more than men for coverage, according to the American Association of Long Term Care Insurance.

- They are far more likely to take breaks from the workforce in order to raise a family or take care of a family member, lowering their lifetime earnings. Whether it's a few months of maternity leave or a few years of child rearing, motherhood is likely to reduce a woman's total earnings. Taking care of aging parents can have the same impact. The Women's Institute for a Secure Retirement (WISER) estimates that primary caregivers will lose $303,000 in lifetime income because of lost pay, bonuses and promotions. Sixty-nine percent of caregivers are women. WISER also reports that, on average, women work 12 fewer years than men in their lifetime. Furthermore, according to Department of Labor statistics, 30 percent of women with children under-18 don't work at all outside the home (compared to 7.2 percent of fathers), preferring to be stay-at-home moms.

- In spite of advances over the last few decades, women still lag men in salary income, making it more difficult to build a sufficient nest egg. Census Bureau data show that in 2012, the median annual salary for women working full-time was $37,791, 23 percent less than men. The Vanguard study found that 45 percent of women earned less than $50,000, compared to 28 percent of men. The pay discrepancy, exacerbated by working fewer years, also reduces a women's Social Security benefit because she will have contributed less to the Social Security system.

The situation for single women – never-marrieds, widows, divorcees – is often worse than women in general. According to the Council on Contemporary Families, 37 percent of American women 65+ live alone, nearly twice the percentage of men. A study by the National Center for Family & Marriage Research at Bowling Green State University, showed that divorce among people 50+ is increasingly common and has a negative impact on retirement security. Even though the overall divorce rate in the United States has been unchanged since 1990, since that time divorces among 50+ spouses has doubled and for 65+, more than doubled. In America today, one in four people getting a divorce is 50+ and 10 percent are 65 or older.

Writing for Investment News, Mary Beth Franklin pointed out that "a whopping 27 percent of gray divorced women are poor compared to just 11 percent of gray divorced men. Gray divorced women receive smaller Social Security benefits on average than all other single women or men."

When it comes to retirement, there's no doubt that women face a difficult set of issues specific to their gender. But there are steps women can take to mitigate those challenges and secure a more comfortable retirement.

1. **Get Educated**

The 2015 Gender Gap in Financial Wellness Report by Financial Finesse indicated that when it comes to money "the largest gap between men and women that remains is in investing and money management." The research showed that 67 percent of women are confident in their general investment knowledge, compared to 84 percent of men. And in a 2015 Merrill Lynch study, 55.3 percent of women said their knowledge of the financial markets and investing is below average (only 27.2 percent of men said the same thing).

The need for education and involvement in retirement planning extends to housewives who rely on their spouses' income. Homemakers may take the lead when it comes to household finances and everyday spending, but often are not part of the retirement planning process. Homemakers should be engaged in the process and create their own financial backup plan, in the event of a separation or divorce, or if her spouse loses a job, falls ill, or passes away.

"Women sometimes leave finances to the back burner," said Vielka Burey-Jacas, a certified financial planner with Women's Financial Advisory Group. "They take on many different roles in their lives, but they forget to think about themselves and their own future. I encourage women to educate themselves on this topic and join groups of women that offer workshops."

Although studies have shown women to be willing investors, their investments tend to be conservative. “Women tend to have a different risk profile and attitude towards money, when compared to men,” said Julie Riach, a financial advisor and owner of Women’s Wealth Advisory Services. “They are more risk averse and therefore tend to invest in lower return products that won’t grow their portfolios to the extent they will need for a comfortable retirement.” The same Financial Finesse report showed 48 percent of men were satisfied with their asset allocations, while only 34 percent of women expressed that confidence.

2. Create a Plan

To paraphrase the Cheshire Cat, “if you don’t know where you’re going, any road will take you there.” That strategy may have worked in Alice in Wonderland, but it virtually guarantees failure when it comes to retirement. According to the 2015 Retirement Confidence Survey, only 28 percent of unmarried women had even tried to determine how much money they will need in retirement, versus 43 percent of men.

When creating a retirement plan, you should be able to answer three critical questions:

- **What do you envision when you think about retirement?** Continuing to work? Staying home and volunteering in your community? Traveling the world? Spoiling the grandchildren?
- **How much money will you need to realize that vision?** How much will you need initially? How much will you need in the future if inflation skyrockets? Did you take into account healthcare and long-term care costs?

- **Where is that money going to come from?** Have you saved enough? Will your investments generate enough income and keep up with inflation? What will your Social Security benefit be?

Those are the essential questions everyone – especially women – should be asking themselves as they contemplate leaving the workforce for good. It's often helpful to start with your current budget, documenting all your expenses. To that list add any new expenses you envision in retirement (travel or a new hobby, perhaps) and deduct any expenses that will be reduced or go away (clothes for work or commuting costs, for example).

3. **Get Out of Debt**

Reducing debt is good advice for anyone nearing retirement, but might be especially important to women. There are two sides to the savings coin – money coming in and money going out. While they wait for equal-pay-for-equal-work to become a reality, women can improve their savings picture by reducing expenses related to debt. And at the top of the list of debts to tackle is credit card balances.

Citing various studies, Motley Fool's Selena Marajian wrote that compared to men, women are more likely to carry credit card debt, make only the minimum credit card payments and be charged a late fee. Credit card abuse is most rampant among younger women. A National Debt Relief survey showed that 63 percent of women aged 18-24 have some credit card debt, compared to 36 percent of men in the same age range.

Paying down debt will free up cash that can be saved and invested in order to grow retirement funds. "Concentrate on paying off consumer debt and living a debt-free lifestyle so you can free up cash flow and redirect more available cash into retirement savings," said Toni Husbands of DebtFreeDivas.com.

It is also important to have a backup plan – just in case you have to stop working before your planned retirement. What would you do if you were laid off or had to stop working because of illness or needing to care for a loved one? An emergency plan should be included for situations where you're inability to work will be temporary. Many financial experts suggest having an emergency fund large enough to cover your living expenses for at least three to six months.

4. **Maximize Social Security**

Social Security plays a vital role in the retirement incomes of many women, especially women living alone. According to the Social Security Administration, in 2013 nearly half the income of unmarried women, including widows age 65+, came from Social Security. When it comes to claiming Social Security benefits, there is a dizzying array of options from which to choose. Because they often put less into the system, making their benefit smaller, it is essential that women maximize their Social Security benefit. When deciding on which strategy will yield the most, it is probably best to start with *when* to claim Social Security benefits.

If feasible, there are significant advantages to delaying benefits as long as possible. Under most circumstances, individuals can begin receiving benefits as early as age 62 even though Social Security considers 66 to be "full retirement age." The downside to taking a Social Security benefit early is that it will be reduced for every month it is taken prior to reaching full retirement age. Nevertheless, a Nationwide Retirement Institute survey showed that 80 percent of retired women took benefits early – and 25 percent of them later regretted that decision.

Although the Social Security Administration penalizes people for taking benefits early, it rewards people who delay taking their benefits. For every year past full retirement age, a person's benefit increases 8 percent until age 70 when the benefit is capped.

Let's use Jennifer as an example. Jennifer would be eligible for $750/month from Social Security when she turns 62. But, according to the SSA, if she waits until age 66, her benefit would be $1,000/month. And if Jennifer delays benefits until reaching 70, she would receive $1,320/month, a whopping 76% increase over her age-62 benefit. "Women in general have to be prepared to live longer and often have to do so with less savings," said Shawn Britt, director for advanced consulting for Nationwide Financial Services. "This makes maximizing Social Security benefits extremely important."

For divorcees, two other popular strategies are available.

Divorcees who were married at least 10 years and are currently single, can claim Social Security benefits based on their ex-husband's earnings. "As long as they have been divorced at least two years, former spouses can claim on an ex's earnings record even if that person has not yet claimed Social Security, as long as both of them are at least 62 years old," said Franklin. "Ex-spouses (who do no remarry before age 60) are also entitled to survivor benefits when an ex-spouse dies." (A spousal benefit is worth 50 percent of the worker's benefit if the person receiving the benefit is at least 66.)

Another claiming strategy involves filing a restricted application. Doing so allows a wife or divorcee to claim only spousal benefits when turning 66, allowing their own benefit to continue to grow 8 percent per year until age 70. At that point she could switch to her own benefit if it has become larger than the spousal benefit. Franklin underscored how valuable this strategy can be. "Filing a restricted claim for spousal benefits can be particularly useful to divorced spouses who need to work longer to build up their retirement savings and create a larger Social Security benefit.” As a result of legislation passed in 2015, the “restricted application” strategy has been eliminated . But people who turned 62 by the end of 2015 are grandfathered and can still file a restricted claim when they turn 66.

5. More Progress Needed

Today’s women are better educated than previous generations and more likely to be part of the workforce. Nevertheless, in general, women still earn less than their male counterparts and work fewer years over their lifetimes. They still tend to have more child-rearing responsibilities. And, on average, women will live longer than men, meaning they will need more savings over their lifetimes.

That combination of factors makes achieving a comfortable retirement difficult for women. An Insured Retirement Institute study showed that 53 percent of women are very concerned about being able to afford the lifestyle they want in retirement (compared to 36 percent of men). And 54 percent of women don’t think they’ll be able to retire when they want to (34 percent of men).

The keys to overcoming those obstacles are education and participation in retirement planning. “It is critical that every woman take personal responsibility for her financial independence through education and personal involvement rather than relying on someone else to do it for her,” said Kathleen Hastings, a financial planner with FBB Capital Partners. “No one will care more about your financial independence than you do.”

There are many reasons why older women find themselves in a financially precarious position when they enter into retirement. These reason range from working fewer years in lower-paying jobs than men, to saving less for retirement. This is what you can do now….

1. **Make retirement a priority.** A husband's income from Social Security and employer pensions will drop significantly if the husband dies first, which is why widows commonly fall into poverty unless they have some of their own retirement resources. Women commonly make financial sacrifices during their working years. You stay home to raise children or care for elderly relatives. And many tend to rely on their husbands for their principal financial support. But if women outlive men by an average of five years, that's five years in retirement to finance. Think of what it costs to fund five years right now while you're still working. Consider how you'll have to do that in retirement when you no longer have a steady employment income, and when you might have to face unexpected medical costs

2. **Beef up savings**. A woman in her fifties or sixties can't make up for decades of lost retirement income and tax-deferred compounding, but she can at least make up some of the shortfall by beefing up savings. You can join a retirement plan at work or opening an individual retirement account (IRA). Even a nonworking spouse can do that. Think of paying your retirement accounts just as you would any critical monthly bill. You'd pay your utility bills before buying those yoga pants from Lululemon, right? Think of your retirement account the same way.

3. **Beef up Social Security benefits.** Returning to work can beef up a woman's Social Security benefits ultimately earned in her name. Social Security bases its payments on a 35-year employment history, and even part-time work may earn more in a year than what you might have been making three decades ago.

4. **Know your retirement rights.** That's true when it comes to your husband's company pension if your husband dies before you do, and when it comes to what Social Security benefits you might receive, even in the event of a divorce.

5. **Be aware of Long-term care insurance**. While many men and women should investigate long-term care insurance, it can be especially important for women. Women are twice as likely as men to live in a nursing home, and they're less likely to be able to stay at home because they will have outlived their husbands who might care for them

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- *For more information on when to begin taking Social Security benefits, see our white paper on "Choosing the Right Age to Maximize Your Social Security Benefits."*

- *Having a plan is essential to a comfortable retirement. Be sure to check out our white paper on "Why You Absolutely, Positively Must Have a Retirement Plan."*

- *To get a second opinion on your retirement outlook and portfolio, visit www.xxxxxxxxxxxx.com or call xxx.xxx.xxxx.*

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