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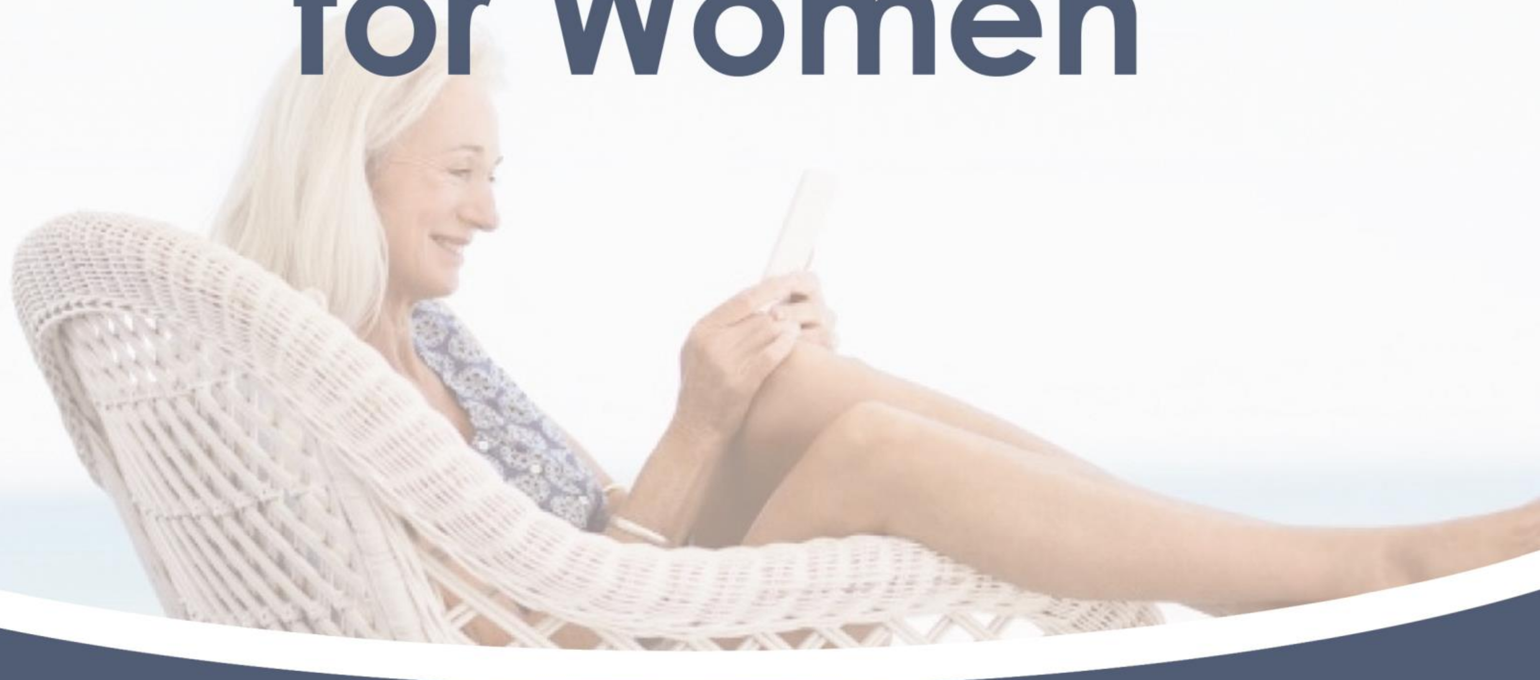
Retirement Savings Challenges for Women



Do you worry about outliving your retirement income? Unfortunately, that's a realistic concern for many women.

Special Challenges for Women

When it comes to saving for retirement and planning for retirement income, women face a number of unique challenges.

Challenge: Women live longer than men

Statistically speaking, women live longer than men. That in itself is not a bad thing, but it means you may need to plan for more years in retirement. At age 65, women can expect to live, on average, an additional 20.6 years compared with 18 years for men. (Sources: NCHS Data Brief, Number 328, November 2018)

Challenge: Higher likelihood of women living on their own

Women have a higher likelihood of living on their own in retirement. According to recent statistics, older women are much less likely to be married than older men: 46% of women are married compared to 70% of men. In addition, 32% of women age 65 and older are widowed and 16% are divorced. Almost half (44%) of all women age 75 and older live alone. For married women, the loss of a spouse could mean a reduction in retirement income from Social Security and/or pensions. (Source: U.S. Department of Health and Human Services, Profile of Older Americans, 2018)

Challenge: Women more likely to take career breaks for caregiving

Women are more likely to take time out of the workforce to raise children and/or care for aging parents. Sometimes this is by choice. But moving in and out of the workforce has several significant financial implications for women:

- Lost income and employer benefits, such as retirement benefits and health insurance. Lost income means potentially lower savings.
- A potentially lower Social Security retirement benefit. This is because your benefit is based on the number of years you've worked and the amount you've earned.
- Economic vulnerability in the event of divorce or a spouse's job loss.
- Possibly a more difficult time finding a job, or a comparable job in terms of pay and benefits, when reentering the workforce.
- Even women who do remain in the workforce are much more likely to request flexible work schedules to meet primary caregiving responsibilities, which can affect their salaries and long-term career advancement.

Challenge: Women generally earn less

Women who work full-time earn, on average, about 82% of what men earn. This wage gap can affect overall savings, Social Security retirement benefits, and, for those lucky enough to have one, a pension. It also means women are more vulnerable to unexpected economic obstacles such as a job loss, divorce, single parenthood, illness, or the loss of a spouse. (Source: U.S. Bureau of Labor Statistics, Women in the Labor Force: A Databook, December 2018)

How Much Income Will You Need?

Because of these special challenges, planning for retirement is especially important for women. So where do you start? The first step is to ask yourself, "How much annual retirement income will I need?"

It's often stated that you should plan on needing 60% to 90% of your preretirement income when you retire. The appeal of this approach lies in its simplicity. But general guidelines like this one aren't really very helpful because they don't take into account your individual circumstances, expectations, and goals.

When listing your expenses, here are some things to consider:

- **Housing costs**--If you have a mortgage, will it be paid soon? Do you plan to relocate to a less (or more) expensive area?
- **Work-related expenses**--You'll eliminate expenses such as commuting, dry cleaning, and retirement savings contributions, in addition to payroll taxes.
- **Health care**--Health-care costs can impact your retirement finances, especially if you retire before you're eligible for Medicare.
- **Long-term care costs**--The potential costs of an extended nursing home stay can be catastrophic.
- **Entertainment**--It's not uncommon to see an increase in entertainment expenses like dining out.
- **Children/parents**--Are you responsible financially for family members? Could that change in future years?
- **Gifting**--Do you plan on making gifts to family members or a favorite charity? Do you want to ensure that funds are left to your heirs at your death?

Start with your expenses

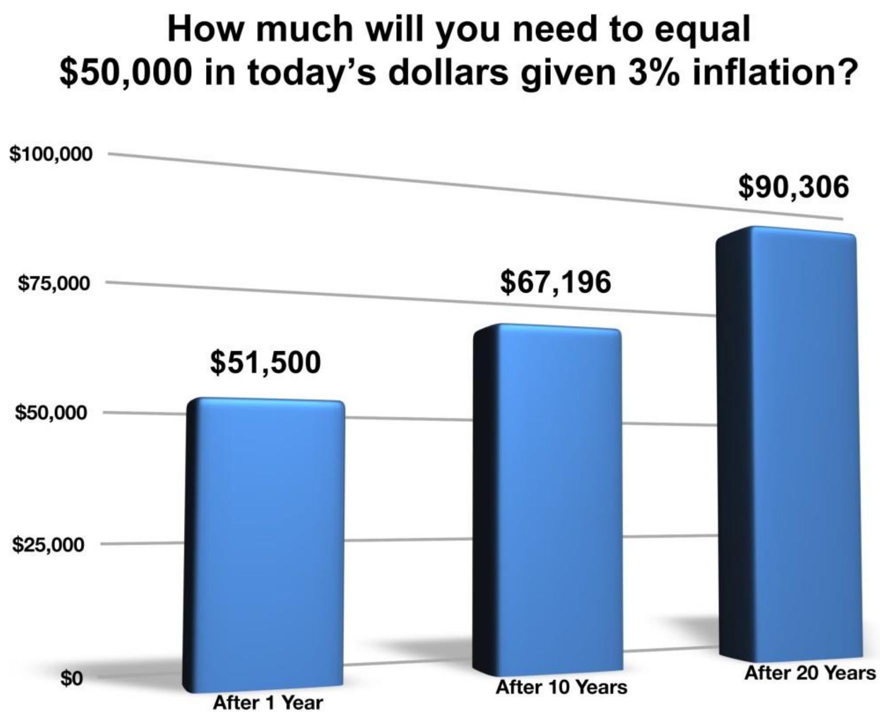
It's fine to use a percentage of your current income as a benchmark, but it's more important to focus instead on all your current expenses, and to

really think about how those expenses will change over time as you transition into retirement.

Consider inflation

Inflation is the risk that the purchasing power of a dollar will decline over time, due to the rising cost of goods and services. If inflation runs at its historical average of about 3%, a given sum of money will lose half its purchasing power in 23 years.

Assuming a consistent annual inflation rate of 3%, and without considering taxes and investment returns, if $50,000 satisfies your retirement income needs in the first year of your retirement, you'll need $51,500 of income the following year to meet the same income needs. In 10 years, you'll need about $67,196. In other words, all other things being equal, inflation means that you'll need more income each year just to keep pace.



Consider taxes

Like inflation, taxes are another important, but often overlooked, aspect of retirement income planning. Taxes can eat into your income, significantly reducing the amount you have available to spend in retirement. You'll want to make sure you understand whether the income that you're counting on is, or is not, subject to tax. For example, private pensions are generally fully taxable. You might be surprised to learn that a portion of your Social Security retirement benefits may also be taxable, depending upon your filing status and total annual income.

You'll also want to make sure that you understand *how* your income is taxed. Some income, like interest, is taxed at ordinary income tax rates. Other income, like long-term capital gains and qualifying dividends, currently benefit from special--generally lower--maximum tax rates. And some specific investments, like certain municipal bonds, generate income that can be exempt from federal income tax, and sometimes state tax as well.

You should also understand how distributions from tax-advantaged accounts like traditional IRAs and 401(k)s are taxed. Generally, distributions from these accounts are taxed as ordinary income, regardless of whether investments within the account may have generated long-term capital gains or qualifying dividends. Special rules apply to Roth IRAs, Roth 401(k)s, Roth 403(b)s, and Roth 457(b)s; qualified distributions from these accounts, which are funded with after-tax dollars, are free from federal income tax.

Consider health-care costs

Women live longer, develop certain chronic conditions at a higher rate than men, and are more apt to experience medical limitations that affect their daily activities. That's why it is particularly important for women to factor in the cost of health care, including long-term care, as part of their retirement income planning.

Also, older women are more likely to be living alone, and therefore less likely to have a spouse available to help them. It's important to understand that since Medicare generally won't pay for long-term care if you ever need it, a greater amount of your care must be paid out of pocket or by Medicaid.

Consider how you can help protect yourself and your family from potentially substantial long-term care expenses. By planning ahead, you could help preserve your choices for care and may avoid becoming a burden on your family.

How Long Will Retirement Last?

The good news is that, statistically, you're going to live for a long time. That's also the bad news, though, because that means your retirement income has to be able to provide for your needs over a potentially very long period of time.

How long? As discussed earlier, the average 65-year-old American woman can expect to live for approximately 20 years. So it's not unreasonable to plan for a retirement that lasts for 25 years or more, which means your income and savings will need to last that long as well.

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It's important to contact the Social Security Administration to discuss your options. For more information, visit the Social Security Administration's website at www.ssa.gov or call (800) 772-1213 to speak with a representative.

Sources of Income: Social Security

Traditionally, retirement income has been described as a "three-legged stool" comprised of Social Security, traditional employer pension income, and individual savings and investments.

For most, Social Security provides a steady, lifelong source of income in retirement. You'll receive a monthly benefit for the duration of your retirement, and your benefit will be adjusted annually for inflation. You can begin receiving Social Security as early as age 62, can wait until your full retirement age (shown in the following chart), or can delay benefits as late as age 70.

When should you begin receiving Social Security?

Your Social Security benefit is based on the number of years you've worked and the amount you've earned, but your benefit amount also depends on the age at which you begin receiving benefits. Also, keep in mind that if you're married or divorced, and your lifetime earnings were lower than your husband's, you may be entitled to a spousal benefit based on your husband's earnings record that is higher than the benefit based on your own earnings record.

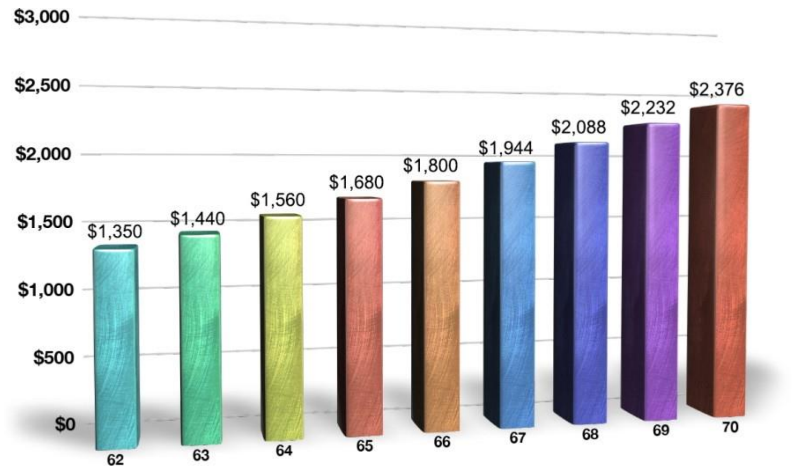
If you were born in:	Your full retirement age is:
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Note: *If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.*

Electing to receive Social Security before your full retirement age will result in a lower monthly benefit than if you wait until your full retirement age. Specifically, your retirement benefit will be permanently reduced by 5/9ths of 1% for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1% thereafter.

If you delay receiving Social Security benefits past your full retirement age, you can receive delayed retirement credits that will permanently increase your benefit by a certain percentage for each month you wait, up to the maximum age of 70. In general, the monthly percentage is 2/3 of 1%, so the annual percentage is 8%.

The chart below shows how much a monthly benefit of $1,800 at full retirement age would be worth if taken earlier or later than full retirement age (66 in this example):



There's no "right" time to begin receiving Social Security benefits. There are many variables to consider, including whether you plan to work, how long you expect retirement to last, how your spouse will be affected, and the impact on your overall retirement income plan.

Sources of Income: Pensions

Employer pensions

If you, or your spouse, are entitled to receive a traditional pension from an employer-sponsored pension plan, you'll want to carefully consider your choices as this may be one of the most important retirement income decisions you'll make.

Pension plans generally provide a retirement benefit in the form of an annuity, payable over the plan participant's lifetime, beginning at the plan's normal retirement age (typically age 65). Many plans allow for early retirement (for example, at age 55), but will reduce the pension benefit to account for the fact that payments are beginning earlier, and are payable for a longer period of time.

If you're married, the plan generally must pay benefits as a qualified joint and survivor annuity (QJSA). A QJSA provides a monthly payment for the participant's lifetime, with at least 50% of that amount continuing to the surviving spouse after the plan participant dies. The payments under a QJSA are generally smaller than under a single-life annuity because they are payable for a longer period of time--until both spouses have died. The plan participant can waive the QJSA and choose a different form of benefit (for example, the larger single-life annuity) but only if the participant's spouse consents. The plan may offer other options as well, including the possibility of taking a lump-sum distribution.

If you, or your spouse, are entitled to receive a pension from a traditional defined benefit pension plan, you'll want to carefully consider your choices as this may be one of the most important retirement income decisions you'll make.

If your husband has earned the pension benefit, in most cases it makes sense to keep the QJSA, as women are more likely to survive their spouses. Waiving the QJSA could leave you without an important source of income. Conversely, if you have earned the pension benefit, it may make sense, for the same reason, to waive the QJSA and choose the larger single-life annuity instead.

However, these are just broad generalizations. The option that's right *for you* depends on your individual situation, including your--and your spouse's--age, health, and other financial resources. It's extremely important that you completely understand all of your options before making a decision. Prior to retirement, your pension plan will provide you with an explanation of all your options, and the relative values of any optional forms of benefits available to you. Be sure to read through this documentation carefully. Finally, even if you're divorced, you may have rights to pension and death benefits under your husband's pension plan. Be sure to consult a qualified professional to discuss your options.

Sources of Income: Personal Savings

Identifying the gap

When you compare the amount of annual income you'll need in retirement with the amount of income you'll likely receive from pension plans and Social Security, you're likely going to find a "gap." That is, unless you're lucky enough to have a very generous employer pension, you're going to have unmet retirement income needs that will have to be funded with the third leg of the retirement income stool--your own personal savings and investments.

Your personal savings are the funds that you've accumulated in tax-advantaged retirement accounts such as 401(k) plans, 403(b) plans, and IRAs as well as any investments you hold outside of tax-advantaged accounts.

Potential factors working against women

When it comes to personal savings, though, women face a number of challenges. Statistically, women earn less than men in similar jobs, and they are more likely to work part time. According to the Bureau of Labor Statistics, women earn $0.82 for every dollar earned by men. (Source: U.S. Bureau of Labor Statistics, Women in the Labor Force: A Databook, December 2018)

Women tend to spend fewer years in the workforce, primarily due to caregiving responsibilities. Compounding the problem is the fact that women often start saving later, and save less than men, which reduces their chances of having enough income in retirement.

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These factors explain why many women are at a disadvantage when it comes to saving for retirement, which makes it vital that they take steps to identify and address any projected shortfall. Unless you plan properly, you might not have enough savings in retirement.

What you can do

The number one thing women can do is to start saving now. Set a savings goal that you can work toward and keep track of your progress. Monitor your investments and make changes as needed. A financial professional can help you here.

If your employer offers a retirement savings plan, such as a 401(k) or 403(b) plan, start contributing as much as you can. If you're contributing the maximum amount to your employer retirement plan and need additional options, or if your employer doesn't offer a retirement plan or you're not currently in the workforce, consider an IRA.

Become a more knowledgeable investor. Because many women will end up being solely responsible for their own financial well-being at some point in their lives, it's important that they have a sound understanding of the investment world and the confidence to make appropriate investing decisions.

Dealing with a Shortfall

What can you do if, after factoring in your personal savings, your projected income still won't meet your projected expenses in retirement? The best solution for dealing with a shortfall will depend on the severity of your projected deficit, the length of time remaining before retirement, and how long you need your retirement income to last. But consider one or more of these three options:

- Delay retirement
- Work during retirement
- Find new sources of retirement income

Delay retirement

As you might expect, delaying retirement offers certain advantages when it comes to dealing with a shortfall. The longer you work, the longer you'll be able to continue contributing to your retirement savings. Even if you're no longer adding to your retirement savings, delaying retirement postpones the date that you'll need to start withdrawing from your savings. And a shorter distribution period could significantly enhance your savings' potential to last throughout your lifetime.

In addition, delaying retirement may mean that you can postpone claiming Social Security retirement benefits, potentially increasing your annual benefit when you do begin taking payments.

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Continued employment may also mean continued access to company-sponsored health insurance.

Work during retirement

The obvious advantage of working during your retirement is that you'll be earning money and relying less on your retirement savings, leaving more of your savings to potentially grow for the future and helping to stretch your personal savings. In addition, full- or part-time work during retirement could potentially provide access to affordable health care (more and more employers are offering health benefits to part-time employees as well as full-time employees).

If you do work during retirement, you will want to make sure that you understand how the income you earn might affect your Social Security benefits. While your earnings may increase your Social Security retirement benefits in future years, current benefits could be reduced. For example, for the years before you reach full retirement age, $1 in Social Security retirement benefits will generally be withheld for every $2 you earn over the annual earnings limit ($18,240 in 2020). Special rules apply in the year that you reach full retirement age.

It's worth noting that a number of nonfinancial reasons may motivate individuals to work in retirement. For example, you may value the social interaction, sense of accomplishment, and structure that your career provides, and ultimately decide that full- or part-time work, launching a new career, or starting your own business is the right decision for you.

Find other potential sources of retirement income

Finally, think about other sources of retirement income that might potentially be available to you. For example, if you have built up substantial home equity, it's possible that you could tap that equity as a source of retirement income, either by selling the home (and possibly downsizing) or by borrowing against the value of the home (a course that should be explored with caution).

Another example: an existing permanent life insurance policy that has accumulated cash value can sometimes be used as a source of retirement income, although policy loans and withdrawals can reduce the cash value, reduce or eliminate the death benefit of the policy, and have negative tax consequences--so, again, proceed with caution.

Working with a Financial Professional

You don't have to wait until you're in a tough situation to seek professional guidance. A financial professional can help during the good times, too.

We all know women are busy working, caring for their families, and taking care of many household responsibilities. Often, there aren't enough hours in a day to go grocery shopping or get a haircut, so how are you supposed to find time to research investment options, buy a life insurance policy, or consider a living will?

A financial professional can help.* If you're unsure about hiring a person to help with your finances, think of it this way. You hire people to do things like work on your car and tend to medical issues, so it might make sense to do the same thing when dealing with important financial matters.

A financial professional can:

- Help you see the big picture
- Work with you to create a financial strategy based on your individual circumstances
- Educate you about different investment options and help you choose appropriate investment strategies for your short- and long-term needs
- Monitor your plan and adapt it to your changing circumstances
- Keep you up-to-date on new legislation and tax changes
- Answer any questions you may have

Of course, it's still important to educate yourself on financial topics and make the ultimate decisions that affect your financial health. But it's nice to know there is someone you can turn to for questions, advice, and support if you need it.

There is no assurance that working with a financial professional will improve investment results.