Retirement Savings Challenges for Women

And Strategies to Help Overcome Them

THE RETIREMENT GROUP LLC
PARTNERS IN RETIREMENT

Special Challenges for Women

When it comes to saving for retirement and planning for retirement income, women face a number of unique challenges, which we'll be discussing in more detail.

- First of all, women generally live longer than men, which means they may need to plan for more years in retirement.
- Because of their longer life expectancies, women should also consider that they may spend some of their retirement years living on their own.
- Women often interrupt their careers to care for children and aging parents.
- Because of these career interruptions, women may spend less time in the workforce and earn less money than men in the same age group, which could result in saving less for retirement and having a lower Social Security benefit.

It's important to recognize these challenges and plan accordingly. Let's look at each challenge a little more closely.

Sources: NCHS Data Brief, Number 328, November 2018; U.S. Department of Health and Human Services, Profile of Older Americans, 2017; SSA Publication No. 05-10127, What Every Woman Should Know, October 2018

Challenge: Women Live Longer Than Men

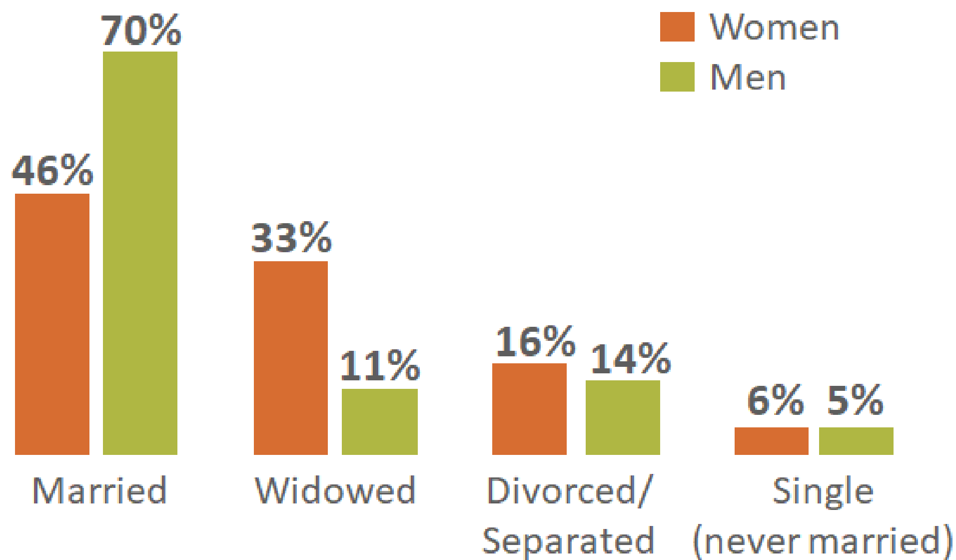
Statistically speaking and all other things being equal, you're likely to live longer than a man your age. That in itself is not a bad thing, but it means you may need to plan for more years in retirement.

At age 65, a woman can expect to live, on average, an additional 20.6 years, compared with 18 years for a man.

The bottom line is, don't underestimate the number of years you may spend in retirement.

Source: NCHS Data Brief, Number 328, November 2018

Challenge: Higher Likelihood of Women Living on Their Own



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, 33% of women age 65 and older are widowed and 16% are divorced.

Almost half (45%) 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.

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 generally earn less than men.

According to the Bureau of Labor Statistics, 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.

So... How Much Annual Income Will You Need?

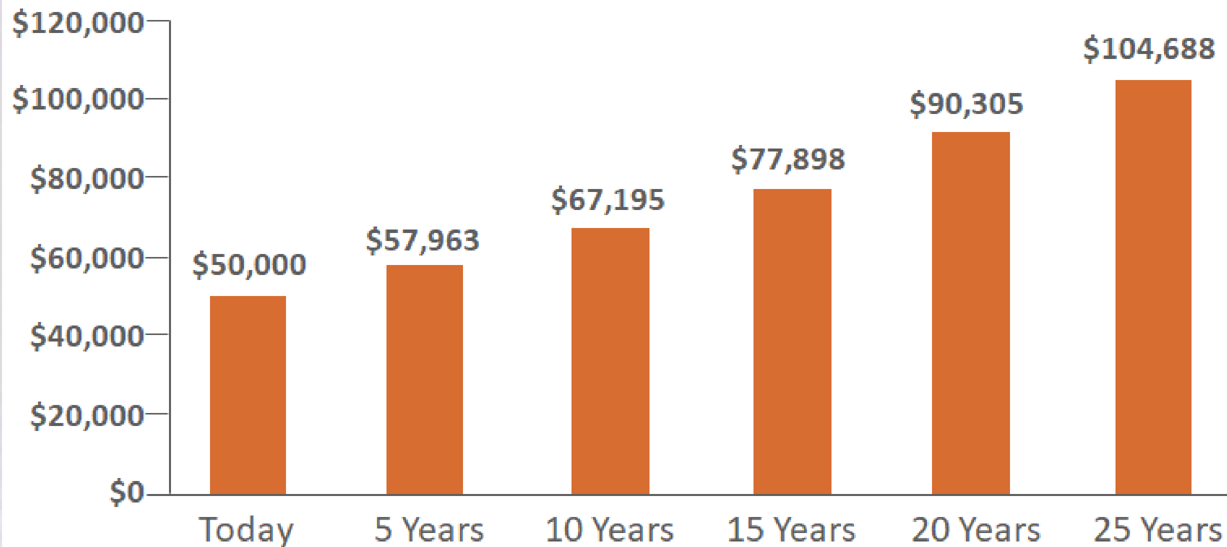
Because of these special challenges, planning for retirement is especially important for women. So where do you start? The first step is to ask yourself, "How much annual retirement income will I need?"

It's often stated that you should plan on needing 60% to 90% of your pre-retirement 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.

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.

For example, some expenses like a mortgage and the costs of commuting to and from work may disappear during retirement; other expenses may increase, like yard care services, snow removal, or home maintenance — things you might currently take care of yourself but may not want to do, or might be unable to do, in the future.

And if you'll be using your newfound free time in retirement to travel more, or take up new hobbies, you'll need to factor in those additional expenses as well. Though it may be difficult, try to list all of your expenses and project how much you'll be spending in each area when you retire.



This hypothetical example is for illustrative purposes only and assumes a 3% annual rate of inflation without considering taxes. It does not reflect the performance of any particular investment .

When you estimate your projected expenses in retirement, you can't assume things will cost the same as they do today. You also need to consider the potential impact of inflation on those expenses. Inflation is the risk that the purchasing power of a dollar will decline over time, due to the rising cost of goods and services.

Inflation is often overlooked when planning for retirement. But unless you take inflation into account, you may underestimate the amount of annual income you'll need in retirement.

If inflation runs at its historical long-term average of about 3%, a given sum of money would lose more than half of its purchasing power in a 25-year period. For example, assuming a 3% inflation rate, a gallon of milk that costs $4 today would cost $8.38 in 25 years.

All other things being equal, inflation means that you'll need more retirement income each year just to keep pace. To outpace inflation, you should try to have a strategy in place that allows your income stream to grow throughout retirement.

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 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 on your filing status and total annual income. Keep in mind that 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 of federal income tax.

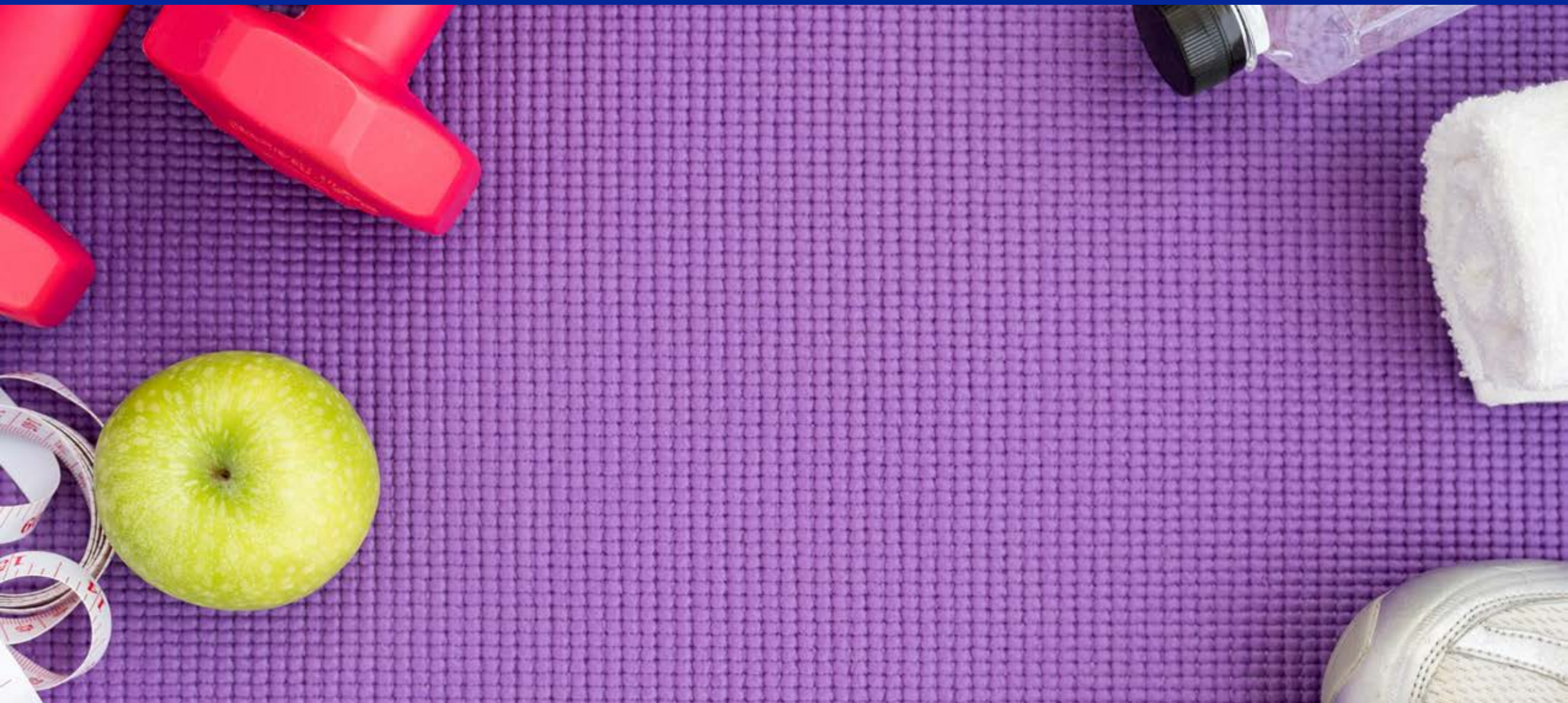
*Interest earned on tax-free municipal bonds is generally exempt from state tax if the bond was issued in the state in which you reside; it is also exempt from federal income tax (though earnings on certain private activity bonds may be subject to regular federal income tax or to the alternative minimum tax). But if purchased as part of a tax-exempt municipal money market or bond mutual fund, any capital gains earned by the fund are subject to tax, as are any capital gains from selling an individual bond.

Finally, when you're calculating how much retirement income you'll need, one of the most important expenses you need to consider is health care. Not only does a longer life expectancy mean more retirement years to plan for, it also means you will likely spend more on health care for premiums and uninsured expenses. For a married couple, there's the risk that savings may be depleted by health-care costs relating to the passing of the first spouse, reducing the amount available to the surviving spouse.

In addition to general health-care premiums and expenses, many women will have a need for long-term care because they are more likely to be living on their own in later years. Long-term care refers to the ongoing services and support needed by people suffering from chronic health conditions or disabilities.

It's hard to face the fact that our health might decline, but statistics suggest that about 57% of women will need some type of long-term care services at some point during their lifetimes after age 65. That care can be expensive.

Impact of Health-Care Costs in Retirement



Currently, the nationwide average monthly cost of a semi-private room in a nursing home is $6,884. But if you don't need the highest level of skilled care, there are other less expensive options, including assisted living facilities, adult day care centers, and home health aides.

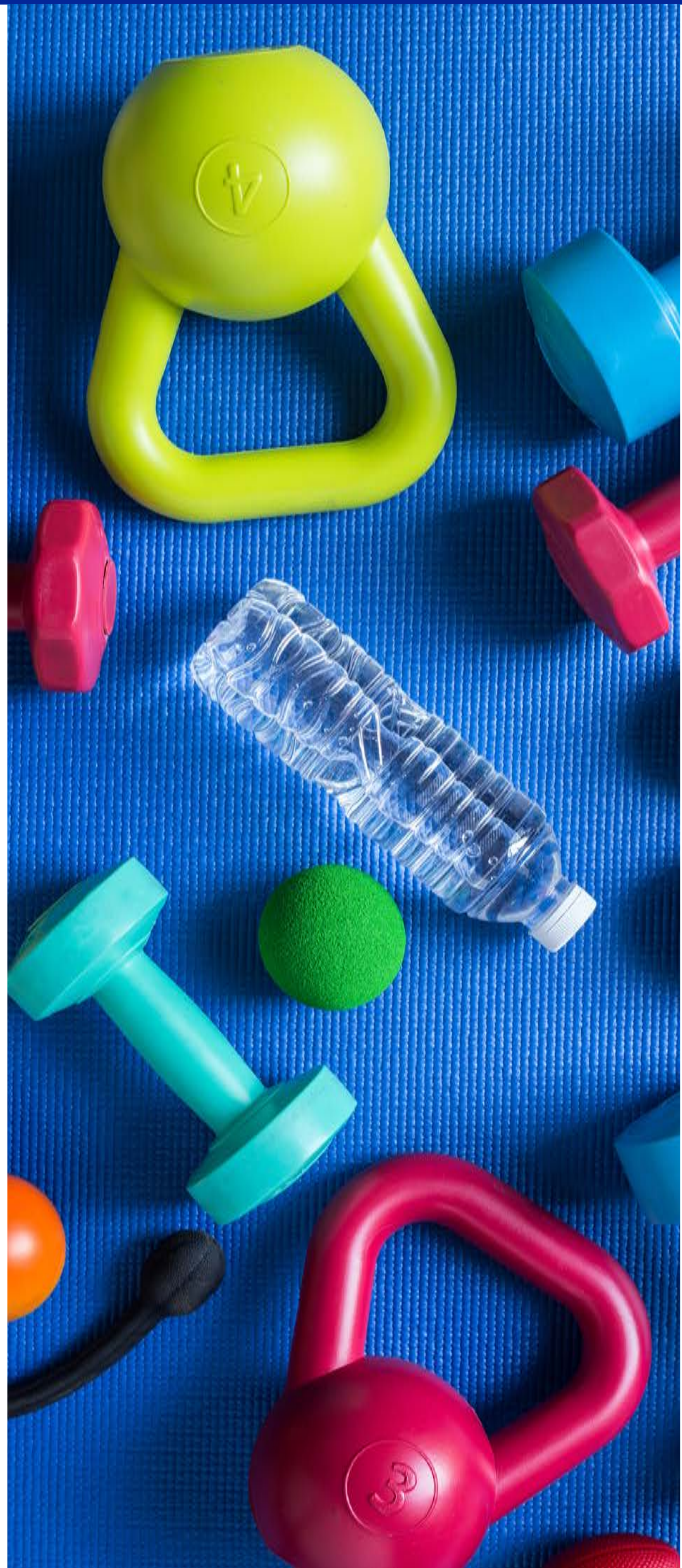
Many people assume that Medicaid will pay for long-term-care costs. You may be able to rely on Medicaid, but there's a catch. To qualify for Medicaid, your assets and income must be low enough for you to qualify. You will have to use up most of your savings before you even qualify for Medicaid, and aside from a small personal needs allowance, you will have to use all your retirement income, including Social Security and any pension payments, to pay for your care before Medicaid pays anything. Another option is to consider long-term-care insurance, which may provide a source of funds for long-term-care expenses but doesn't ensure that you won't have to pay for some of the costs out-of-pocket. And the premium for this insurance will need to be factored into your retirement income needs.

Sources: US Department of Health and Human Services, Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief, 2019; longtermcare.gov

How Long Will Retirement Last?

Now that we've talked about how much annual retirement income you'll need, we should discuss how long that retirement income may need to last. When it comes to your retirement, how long a period should you plan for?

The good news is that we're living longer lives. The bad news is that this generally means your retirement income will need to last for a longer period of time. As I mentioned earlier, the average 65-year-old woman in the United States can expect to live about another 20 years. Life expectancy has increased at a steady pace over the years, and it is likely to continue increasing. 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.



Where will all this retirement income come from? Traditionally, retirement income has been described as a “three-legged stool” composed of:

- Social Security retirement benefits
- Traditional employer pension income
- Individual savings and investments

The first two legs of the stool, Social Security retirement benefits and employer pensions, produce a steady or relatively “fixed” stream of annual income that you can depend on during retirement.

Today, 94% of U.S. workers are covered by Social Security. Social Security is the major source of guaranteed lifetime retirement income for most Americans. For some women, Social Security makes up most, if not all, of the income they have in their later years.

To qualify for Social Security retirement benefits, you have to work in a job that's covered by Social Security and you generally need to have earned 40 credits, which is about 10 years of work. If you haven't worked long enough to qualify on your own, you may qualify for spousal benefits based on your spouse's work record. A spousal benefit claimed at your full retirement age is generally equal to 50% of the primary earner's benefit.

Now, how much can you expect from Social Security?

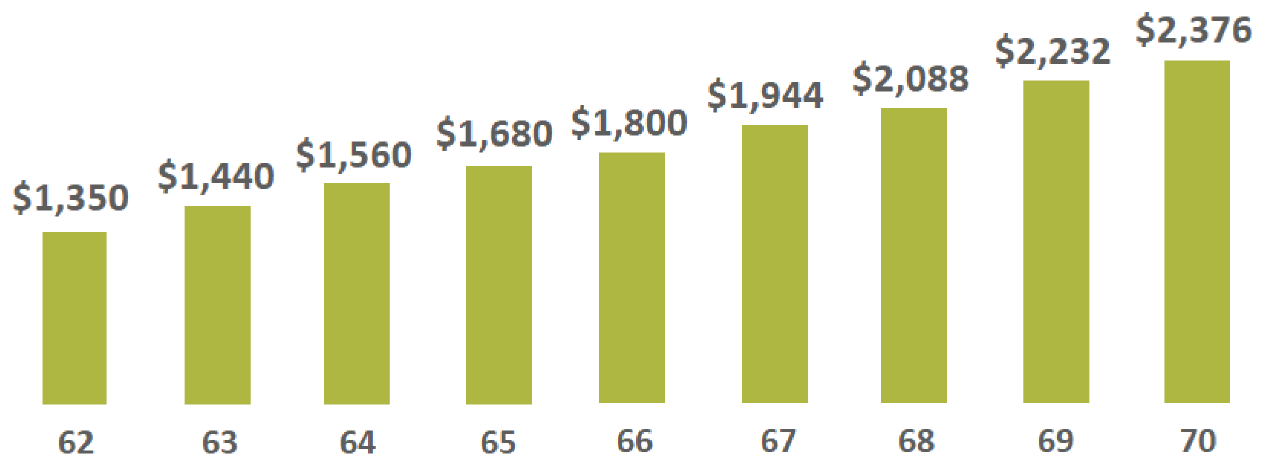
Source: SSA Fact Sheet on the Old-Age, Survivors, and Disability Insurance Programs, December 2018

The amount you'll receive from Social Security is based on the number of years you've worked and the amount you've earned. Your benefit is calculated using a formula that takes into account your 35 highest earnings years. If you earned little or nothing in several of those years, it may be to your advantage to work as long as possible, because you may have the opportunity to replace a year of lower earnings with a year of higher earnings, potentially resulting in a higher retirement benefit.

Another plus is that Social Security's annual cost-of-living increases are calculated using your initial year's benefits as a base — the higher the base, the greater your annual increase — which is something that can help you maintain your standard of living throughout many years of retirement.

Also keep in mind that if you're married and your lifetime earnings were lower than your spouse's, you may be eligible for a spousal benefit based on your spouse's earnings record if it would be higher than your own worker benefit (based on your earnings record). An unmarried, divorced spouse who was married for at least 10 years may also be eligible for a spousal benefit.

The age at which you start claiming benefits will also affect the amount you receive. You can choose to start taking retirement benefits as early as age 62, but if you do so your monthly benefit will be 25% to 30% less than if you had waited until your full retirement age, which is 66 or 67, depending on the year you were born. On the other hand, you will receive a higher monthly benefit if you delay claiming Social Security benefits until age 70; if you wait, your monthly benefit will increase by 8% for each year that you delay taking benefits past your full retirement age. Of course, even if you claim benefits at age 62 and receive a smaller monthly benefit, you will end up receiving more benefit checks. For example, if your normal retirement age is 66, opting to receive benefits at age 62 means you'll receive 48 additional monthly benefit payments.



This chart illustrates what a hypothetical person might receive by claiming Social Security benefits at different ages. It's based on a full retirement age of 66 and a benefit of $1,800 per month. As you can see, if you start taking benefits at age 62, you would receive $1,350 per month, but if you wait until age 70, you would receive $2,376 each month — about $1,000 more. Remember, this monthly benefit is guaranteed, every month, for as long as you live.

So, an important question as you approach your 60s is: Should you begin taking Social Security benefits early at age 62 and receive smaller payments — but possibly receive them over a longer period of time — or should you wait until your full retirement age, or even later, to start taking benefits and receive larger benefits over a possibly shorter period of time?

There's no right answer. This is an individual decision that must be based on many factors, such as other sources of retirement income you may have, your life expectancy, your marital status, whether you plan to continue working after taking benefits, and your tax picture.

The bottom line, though, is that for most women, Social Security alone isn't going to provide enough income in retirement.

Let's move now to the second leg of the three-legged stool: employer pensions. If you or your spouse is entitled to receive a traditional employer pension, you're lucky. Fewer Americans are covered by such plans every year. Pension benefits can be complicated, and it's important to understand how they work.

A typical pension benefit is payable monthly, over the plan participant's lifetime, starting at normal retirement age (for example, age 65). This is called a "single-life annuity." However, once the plan participant dies, benefit payments end, even if only a single payment has been made.

If you're married, federal law requires that benefits be paid as a "qualified joint and survivor annuity," or QJSA, unless both you and your spouse agree to receive the benefit as a single-life annuity, or in some other form.

The QJSA pays a monthly benefit to the plan participant and then continues to pay 50% to 100% of that amount to the surviving spouse after the plan participant dies. The amount paid to the plan participant during his or her lifetime is generally smaller than under the single-life annuity because the benefit is payable over a potentially longer period of time — two lifetimes instead of one.

If you're entitled to a pension, your choice of whether to receive the pension benefit as a QJSA or in some other form may be one of the most important retirement decisions you'll make.

Example		
Form of Benefit	To Participant	To Surviving Spouse
Normal retirement benefit (single-life annuity)	$4,000	$0
50% QJSA	$3,800	$1,900
100% QJSA	$3,600	$3,600

These hypothetical examples are used for illustrative purposes only.

Let's look at an example. These numbers are purely for illustration and aren't meant to reflect the exact benefits that any particular plan may provide. Suppose your spouse retires at age 65, having earned a pension benefit of $4,000 a month, payable for his lifetime. This is his single-life annuity benefit. Because he's married, however, the pension benefit must be paid as a QJSA, unless you both agree to choose the benefit in a different form.

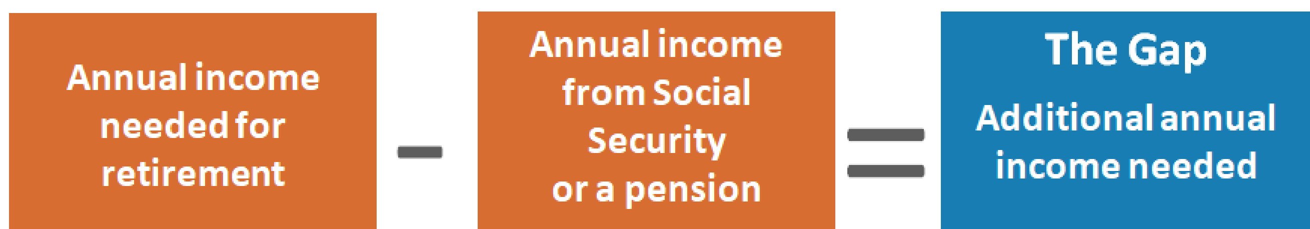
Because the QJSA is payable over a longer period of time — both of your lifetimes — the amount paid to your spouse while he's alive is reduced. Let's assume that under the QJSA your spouse will receive $3,800 each month, and that after his death you'll receive 50% of that amount, or $1,900 per month. This is called a 50% QJSA.

Example		
Form of Benefit	To Participant	To Surviving Spouse
Normal retirement benefit (single-life annuity)	$4,000	$0
50% QJSA	$3,800	$1,900
100% QJSA	$3,600	$3,600

These hypothetical examples are used for illustrative purposes only.

You may also have the option to receive up to 100% of the amount your spouse was receiving during his lifetime. In this case, because your survivor benefit is higher, your spouse's benefit is reduced again. Let's assume in this instance that your spouse's monthly benefit under the QJSA will be $3,600 during his lifetime, and that you'll receive the same amount, $3,600, after his death. This is called a 100% QJSA.

You may be tempted to take the single-life annuity because it provides the highest monthly benefit now. But this option would provide no benefit to you once your spouse dies. As we've discussed, because women are more likely to survive their husbands, waiving the QJSA and taking the single-life annuity instead will not make sense in most cases. Conversely, if you have earned the pension benefit, it may make more sense to waive the QJSA and take the larger single-life annuity benefit, because of the likelihood that you'll survive your spouse.



Let's recap for a moment.

We've talked about estimating how much annual income you'll need in retirement. We've also talked about how much income you can expect from employer pension plans and Social Security. If you compare these two, 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.

Personal Savings: Potential Factors Working Against Women

When we're talking about your personal savings, we're talking about funds that you have in tax-advantaged accounts like IRAs, 401(k) plans, 457(b) plans, and 403(b) plans, as well as any investments you hold outside of tax-advantaged accounts.

When it comes to personal savings, though, we've already explained that women face a number of challenges. Statistically, women earn less then men in similar jobs, and they are more likely to work part-time. Women also tend to spend fewer years in the workforce, primarily due to caregiving responsibilities.

Compounding the problem is that women often start saving later, and save less than men, which can reduce their chances of having enough income in retirement. The combination of these factors means you might not have enough savings in retirement unless you plan properly. 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.

Source: U.S. Bureau of Labor Statistics, Women in the Labor Force: A Databook, November 2017

With all the challenges women face, what can you do? First, to state the obvious, the number one thing 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 you need additional options — or if your employer doesn't offer a retirement plan or you're not currently in the workforce — consider an IRA. We'll talk more about these plans in a moment.

Become a more knowledgeable investor. Some of you here today may have handled your family's finances all along, while others may be new to the world of investing. No matter what your level of expertise, there's always room to learn more and adjust your plan based on your current circumstances.

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.

Personal Savings: Saving a Little Could Mean A Lot in Retirement

	Jane	Sally
Salary	$50,000	$50,000
Percent saved	5%	8%
Monthly savings	$208.33	$333.33
Years saved	15	15
Total saved	$37,500	$60,000
Average earnings	5%	5%
Savings after 15 years	$55,684	$89,905

This hypothetical example assumes contributions are made monthly and continuously over 15 years. This illustration assumes a hypothetical fixed annual rate of return; the return on your actual investment portfolio will be different, and will vary over time, according to actual market performance. The example does not take into account any impact of taxes, investment fees, or inflation; if it had the results would have been lower. The example is intended as a hypothetical illustration and should not be considered financial advice. All investing involves risk, including the possible loss of principal, and there can be no guarantee that any strategy will be successful.

Here's an example of how saving a little extra each month could mean a lot during your retirement years. Assume that Jane and Sally both earn $50,000 each year from their jobs. Jane saves 5% of her salary each month while Sally saves 8% each month. After 15 years, Jane will have saved $37,500, and Sally will have saved $60,000, roughly $22,500 more. If Jane and Sally earned 5% per year on their savings, Jane's savings would be worth $55,684 in 15 years. But Sally's would be worth $89,095 — over $33,000 more.

Let's talk a little more now about employer plans and IRAs. Probably the best way to accumulate funds for retirement is to take advantage of these special tax-deferred retirement savings vehicles.

A 401(k) plan and other employer-sponsored retirement plans can be very powerful savings tools because your contributions come out of your salary on a pretax basis, reducing your current taxable income, and accumulate tax deferred until withdrawn. (Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax.)

Having your contributions deducted directly from your paycheck can make it much easier to sock away money versus saving what you have left over at the end of the month. It may be hard initially to receive a smaller paycheck, but paying yourself first should ultimately benefit you in the long run. And many employers match a portion of the amount you contribute.

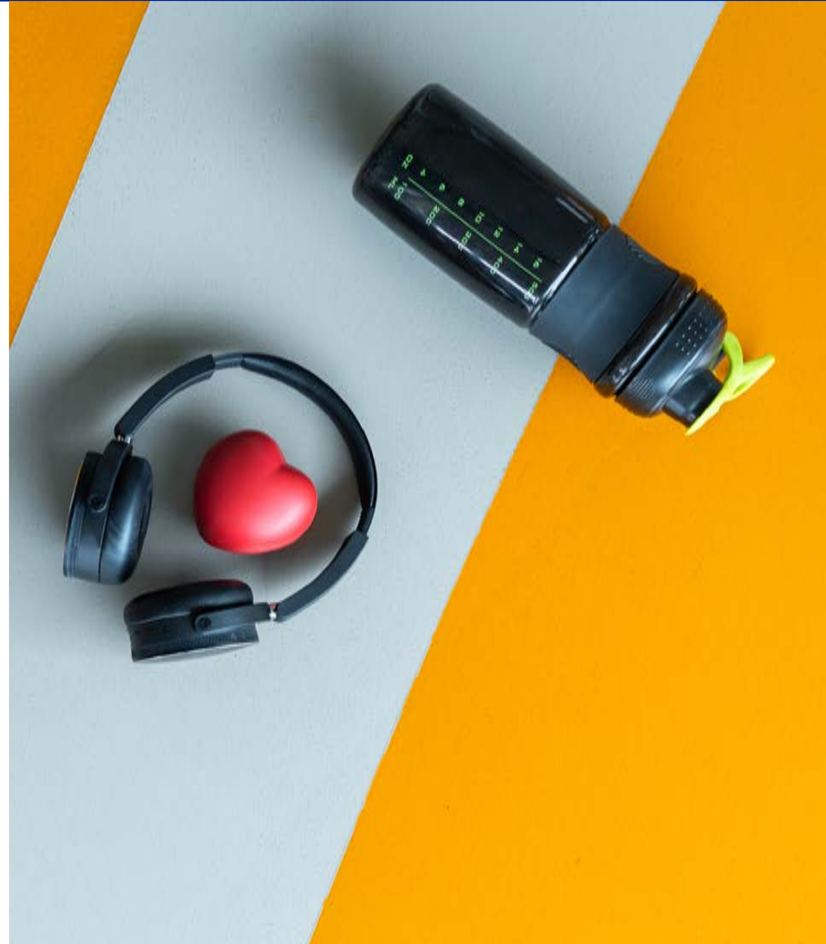
If your 401(k) plan offers a Roth option, you may be able to contribute to the Roth account. Roth after-tax contributions don't provide you with an immediate tax savings, but they allow you to make withdrawals free of federal income taxes under certain circumstances.

Finally, 401(k) plans often include employer-matching contributions, which should make them your first choice in saving for retirement. You should try to contribute at least enough to receive the full employer match because it's essentially free money.

Traditional, Roth, and spousal IRAs can also be used to save for retirement and offer tax advantages.

Traditional IRAs, like 401(k)s, feature tax-deferred earnings growth and can lower your current taxable income if you qualify to make tax-deductible contributions. Like the case with a 401(k), funds aren't taxed until they're withdrawn, although they may be subject to a 10% penalty tax if withdrawn before age 59½. Like Roth 401(k)s, Roth IRAs don't permit tax-deductible contributions, but they allow you to make tax-free withdrawals under certain conditions.

Both 401(k) plans and IRAs enable you to make "catch-up" contributions once you reach age 50. IRAs and 401(k) plans are subject to annual contribution limits.



What can you do if you discover that, 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 four options:

- Spend less during retirement
- Delay retirement
- Work during retirement
- Find other potential sources of retirement income

Next we'll talk briefly about a few of these options.

As you might expect, delaying retirement offers certain advantages when it comes to retirement income planning.

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 when you'll need to start withdrawing from your savings. And a shorter distribution period could significantly enhance the potential for your savings to last throughout your lifetime.

As we discussed earlier, delaying retirement may mean you can postpone claiming Social Security retirement benefits, potentially increasing your annual benefit when you do begin taking payments. Continued employment may also result in continued access to company-sponsored health insurance.

Of course, there could be some advantages if you plan to continue working in some capacity during retirement.

The obvious advantage 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 (many 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 ($17,640 in 2019). Special rules apply in the year that you reach full retirement age.

It's worth noting that a number of non-financial 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.

One last observation on the topic: If you're working for an employer that offers a traditional pension, determine whether working part-time will affect your benefits. If your benefit is based on your final average pay, it's possible that working part-time could reduce your benefit. It could also be worth inquiring about any phased retirement program that your employer might offer. These programs allow you to receive all or part of your pension benefit while you continue to work on a part-time basis.

Finally, think about other potential sources of retirement income that might 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).

Here's 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.

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Social Security

North-West Regional Office
Bishop Ranch 3,
2603 Camino Ramon
San Ramon, CA 94583
Phone: 1-800-900-5867

Mid-West Regional Office
10733 Sunset Office Drive
Suite 225
St. Louis, MO 63127
Phone: 1-314-858-9090

South-West Regional Office
1980 Post Oak Blvd.
Suite #1500
Houston, TX 77056
Phone: 1-281-241-9886

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933 Pickering Drive
Yardley, PA 19067
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