

Women and Retirement Risk: What Should Plan Sponsors, Planners, Software Developers and Product Developers Know?

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As baby boomers reach retirement age, concern grows that many Americans may not be adequately prepared for retirement. There are special concerns with regard to women in retirement. Women face the same lifetime risks as men: outliving their assets, facing a long-term care event, getting disabled earlier in life, not saving enough, not investing well enough or suffering a loss due to a scam. This raises the issue of why focus on women's issues rather than retirement issues in general. I propose we consider women's needs because they have different life paths leading to greater challenges for them later in life.

The Differences by Gender

There are many reasons for the differences in retirement experiences.

- Women live longer and the population at the highest ages is primarily female.
- A high percentage of older women are widows and some spend many years as widows.
- Women are likely to be alone in old age whether never married, widowed or divorced.
- Overall, women have fewer years of paid work and lower career earnings.
- In the allocation of family responsibility, women often assume more responsibility at home and for caregiving at many life stages.
- Women are more likely to need help with activities of daily living later in life.

- Women are less likely to have a family caregiver.
- On a societal basis, women experience higher long-term care costs.
- Mothers are the first line of help for children and are extremely devoted to their children.
- Many women have trouble thinking about their needs first (or at the same time) when others have needs, with the result that their needs become secondary or may even be forgotten for long periods of time.

Lessons Learned from Retirees

The Society of Actuaries Committee on Post-Retirement Needs and Risks (CPRNR) recently conducted focus groups with financially resource-constrained retirees retired more than 15 years and with retirees who were more recently retired. Focus groups were conducted separately by gender. The CPRNR has also surveyed retirees and near retirees with regard to post-retirement risks every two years starting in 2001. Some of the findings from this work include:

- Gaps in knowledge and misperceptions are very common.
- People commonly deal with things as they happen rather than anticipating and planning for financial shocks.
- Retirees are very resilient and adapt to many unexpected changes and shocks.
- Widows often adapt quite well.
- Divorce after retirement and a major long-term care event cause major financial disruption.
- Some retirees make very large gifts to children when the children lose jobs or experience major problems.
- Dental expenses and home repairs are major items of unexpected expenses for retirees.
- Women are much more likely to be caregivers and to time their retirement because of the caregiving needs of others.
- Women are more concerned about retirement risks.
- Many people have retirement planning horizons that are too short.

How are Retirement Risks, Needs Affected by Women's Different Experiences?

All Americans are faced with some key issues on the road to retirement security. However, women face these risks in a different manner than men.

OUTLIVING THEIR ASSETS

This is a bigger risk for women because they live longer, which requires more assets to support their longer lives. I believe women are more in need of planning to make sure assets last a lifetime. Annuities can be of particular value for them.

Women are also more vulnerable to running out of assets if they are married or in a relationship at retirement because if one partner in a relationship is ill first and funds are spent on their care, that leaves the survivor at risk of not having enough remaining assets for their remaining single lifetime. It is much more common for the female to be the surviving partner.

A strategy worthy of serious consideration is separating assets, so that each partner in a relationship has their own assets.

NOT SAVING ENOUGH

It is important to save early, save enough and not use it early for nonretirement purposes. Women who have made decisions to work less so that they can devote more time to family need to think about protecting their financial security. A person who works less in the paid workforce and more as a homemaker is depending on the other person's earnings to generate retirement savings. Most often the woman spends less time in the workforce and does not develop a full career and earnings history during her lifetime.

If a woman is going to depend on a partner's future earnings to build retirement security, then protecting that earnings stream is very important. An earnings stream can be disrupted by premature death and disability. Having adequate life insurance and disability insurance for the working spouse is the best means to assure the earnings stream will be available to the nonworking spouse.

NEEDING LONG-TERM CARE SUPPORT IN RETIREMENT

There is a bigger risk that women will need long-term care and also a greater risk they will not have a family member available to provide it.

Women should give consideration to the purchase of long-term care insurance including products that

combine life insurance or annuity benefits with long-term care. Otherwise, if they plan to finance long-term care from savings, a larger amount of savings is needed.

NOT INVESTING WELL

This is a risk for everyone, and there is no easy answer. The employee benefit plan sponsor can help for money saved within a 401(k) plan by offering good investment options and having good default options. The individual may wish to secure professional advice.

AVOIDING SCAMS

Scams come in many different forms. It is important to be vigilant and aware of various forms of scams. Vulnerability seems to increase with increasing age.

The Importance of Choices Made Early in Life

Choices made early in life are very likely to affect long-term financial security later on. Career choice can often make a huge difference, as can the commitment to pursue a career. The career and job chosen will have a big impact on benefits and risk protection. Personal choices with regard to spending and saving early also can have a very big long-term impact. Dollars saved early make a big difference later on. Women also often have a choice of pursuing a career or spending much more time raising a family. Even if they work, some women work sporadically or part time rather than pursuing a career that leads to longer-term security. Many people do not focus on the long-term impact of choices when they are young.

Planning for Money in Marriage and Relationships

Traditionally, most people married without thinking through in advance the financial arrangements between them. The issues have become more complex as there are more divorces, more second marriages including many with children from prior marriages, and dual career households. Some people enter marriages with assets and/or debts. Family decisions affect the long-term future of both members of the couple.

*The New Love Deal*¹ provides advice on structuring financial arrangements in marriage and unmarried partnerships and on structuring the arrangements so that women will not end up with a bad result in divorce

1 Gemma Allen, Michele Lowrance and Terry Savage, *The New Love Deal: Everything You Must Know Before Marrying, Moving In, or Moving On!* (Chicago: The New Love Deal, 2014).

or another split-up. The authors are a retired family court judge turned mediator, a family law attorney and a financial writer. Key messages are that it is vitally important to make agreements about money in relationships and think about the long term. Thinking about money needs to start at the time when the relationship becomes a partnership. Women are sometimes asked to sign prenuptial agreements they do not understand. They should never do this. If they bring assets into a relationship, they need to think about how to protect them. They need to think about what is a fair allocation of the assets during the relationship. They also need to think about ensuring money is saved for retirement and debts are not allowed to grow.

It is also important to remember that pension benefits, both defined contribution (DC) and defined benefit (DB), can be split on divorce, but there is no mandate that they be split. They are considered assets and, therefore, it is important to understand their value and recognize their importance. For pension plan assets to be split, the provisions of applicable pension law² must be followed. Many divorces do not include proper consideration of pension assets.

Traps to Avoid

- **Getting too much into debt.** Credit cards are easy to get and they make it easy to run up debt that is difficult to deal with. Don't overspend and don't run up balances.
- **Giving too much money to children.** Often adult children seek help from parents. Women are particularly vulnerable to giving too much of their assets to children.
- **Giving up a job for caregiving.** It is very tempting to devote one self to caregiving when it is needed, but the cost to the caregiver can be huge. Some of these costs include lost wages, lost retirement savings, extra spending of assets to help others and a loss of one's own health, physical and mental, during the caregiving years. If there is no understanding of the long-term price, this can be a costly decision that results in a bad result for the caregiver.
- **Spending too much on housing.** Housing is the greatest expense for most retirees as well as for

many households at all ages. People are often encouraged to buy as much house as they can with the theory that house prices go up. But they can also go down, and real estate taxes can go up. Keeping a large family home in a divorce settlement or staying after the death of the spouse or when children are gone is a common mistake women make. The upkeep and costs of maintaining a residence that is too large for your needs or does not fit with your current lifestyle needs is expensive. Retirees often find the cost of repairs to be a burden.

- **Not understanding family finances.** Often one person pays the bills and handles much of the money. Most often men are the keepers of the family finances. Women must make sure they know what the family finances are and understand the insurance and investments positions even if their partner is primarily handling them.
- **Not having an emergency fund.** When there is no emergency fund, people commonly dip into retirement savings for recurring but irregular expenses and for unexpected expenses. This can easily become a habit. It is better planning to have an emergency fund and to leave retirement funds for the long term.

What Employee Benefits and Financial Products Are Helpful

During working years, it is important to build up enough assets for retirement. This means saving enough and including protection so that asset build-up can continue in the event of disability during those years. DB plans, where offered, generally include disability protection of continued retirement savings as well as pension accumulation, but they only work well for longer-term employees. DC plans offer a vehicle for retirement savings and participation is definitely recommended. It is ideal when the individual can save 12 percent to 15 percent of earnings each year for a long period. Employer-sponsored long-term disability together with Social Security protects earnings in the event of long-term disability, but more needs to be done to continue retirement savings. Such disability coverage usually continues to normal retirement age.

² The Employee Retirement Income Security Act of 1974, for private pension plans and usually state law for plans covering public sector employees. ERISA provides for the splitting of pension benefits and requires the use of a qualified domestic relations order as part of the divorce. State requirements vary.

Women and Retirement Risk

For individuals without access to employee benefits, savings are very important and individual retirement accounts offer access to some tax-preferred retirement savings. Individual disability insurance can also offer protection of income in the event of disability and there may be a rider (an optional add-on to the policy) available to protect retirement savings. There is no general disability protection available to homemakers. There are a wide range of investment options available for savings and that is beyond the scope of this article.

Post-retirement, it is very important to make savings last throughout life, and there are a range of options for doing this. The only method of converting savings to a guaranteed lifetime income is through purchase of a payout life annuity. Social Security payments are guaranteed for life and indexed for inflation. The amount of income provided by Social Security increases if benefits are started at a later age, and starting Social Security later is a very good deal compared to buying an annuity in the marketplace. Delaying Social Security (up to age 70) should be the first method used to increase lifetime income. If more guaranteed income is needed, then an annuity is recommended.

Recommendations: Creating a Better Future

This essay is about some of the challenges facing women. It offers the proposition that women really have different life circumstances which affect their retirement needs. Individuals, actuaries, financial service companies, advisers, plan sponsors and policymakers all have roles in creating a better future.

Steps to a better future include:

- A planning checklist for women; the following is a start:

- Plan for the long term and don't forget there will probably be a time when you cannot work
- Balance short- and long-term thinking
- Understand family resources and what will be there for you in the event of a family breakup
- Save enough for the long term
- Provide for continued income and asset building in the event of disability
- Provide for the family in the event of the death of income earners
- Be careful about gifts to children
- Do not overuse credit and build up debt
- Evaluate the options if you are asked to be a caregiver, and do not sacrifice your future for others
- Maintain an emergency fund
- Have a plan for dealing with longevity risk; consider using payout annuities
- Have a plan for dealing with long-term care needs; consider using long-term care insurance
- More personal retirement planning by women and emphasize focusing on the long term
- A review of financial planning software in order to produce a list of tools that address women's issues
- Advisers knowledgeable about the issues facing women, and women seeking more unbiased advice
- Benefit plan sponsors including women's retirement issues in their employee education programs and offering retirement advice
- Model financial agreements from an unbiased source that can be used by married and unmarried couples as a starting point for making deals
- Employers establishing more financial wellness programs and including women's issues

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