Women and Life-Defining Financial Decisions

GWIM CIO Office

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Longer life expectancies and employers' shift away from defined-benefit pensions have brought into focus the need for personal retirement planning. Yet many American women may not be adequately prepared for the financial challenges that lie ahead. Accumulating the assets necessary to live comfortably beyond one's working years requires planning. Decisions that may seem unrelated to financial security can have a significant impact later on. This article focuses on the decisions women make throughout their lives that affect retirement security. It serves as a reminder to invest great care in these choices.

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THE DIFFERENCES BY GENDER

As they plan for retirement, women encounter many of the same worries as men: outliving assets, not saving enough, not investing well enough, needing long-term care, becoming disabled, losing a spouse, or falling victim to a scam. But women have different life paths than men. These divergent paths make retirement security more elusive, and require attention to issues specific to each situation. Life paths and retirement experiences of women and men differ for many reasons. Some examples:

- *On average, women earn less over time than their male counterparts.* Overall, they have lower career earnings due to lower wages, fewer years of paid work before retirement, and a greater chance of having worked part-time. Women's earnings average \$0.79 for every \$1 earned by men — a lifetime shortfall of over \$300,000.[1] As a result they have lower pension benefits and/or balances in employer-sponsored 401(k) and other defined-contribution plans.
- *Women have longer life spans.* Women need more money to achieve the same standard of living in retirement and must make the money last longer. At age 65, women can expect to live an average of 21.6 more years and men an average of 19.3 more years.[2]
- *Women are more likely to take the off-ramp to assist with caregiving needs.* They are more likely to be caregivers than men and less likely to have a family caregiver if they need help. An estimated 60% of caregivers are female.[3] Taking time off to provide care for a loved one can disrupt a woman's sustained accumulation of retirement funds. Even if she has accumulated assets, caregiving responsibilities may require her to spend them prematurely.
- *Women are more likely to become single parents earlier in life.* Out of about 12 million single-parent families, over 80% are headed by single mothers.[4] Many single parents struggle to make ends meet, exacerbating the challenge of saving for retirement.
- *Women are likely to spend their last years alone.* After age 85, only 19% of women have a living spouse.[5]

[1] American Association of University Women (AAUW), "The Simple Truth About the Gender Pay Gap," Fall 2015 Edition.
[2] Source: Social Security Administration 2016: http://www.ssa.gov/planners/lifeexpectancy.html
[3] AARP Public Policy Institute and National Alliance for Caregiving. "Caregiving in the U.S.," June 2015, http://www.aarp.org/content/dam/aarp/ppi/2015/caregiving-in-the-united-states-2015-report-revised.pdf
[4] U.S. Census Bureau – Table FG10. Family Groups: 2014
[5] Tamborini, Christopher R., "The Never-Married in Old Age: Projections and Concerns for the Near Future," Social Security Bulletin, Table 1, page 27, Vol. 67, No. 2, 2007.
[6] Institute for Women's Policy Research, The Importance of Social Security in the Incomes of Older Americans Differences by Gender, Age, Race/Ethnicity, and Marital Status, August 2013. Based on 2012 Current Population Survey Annual Social and Economic (ASEC) Survey.

In seeking to strengthen retirement security. The following considerations loom especially large for women:

CAREER DECISIONS

Between their 20s and their 60s, women pursue many different types of careers and patterns of work. Some have a series of jobs, while others work for a single employer for a long period. Employers vary widely in the types of benefits they offer employees — and in their comparative generosity.[7] For example, teachers and public employees often have the potential for long-term employment and generous pensions, but switching jobs may entail a substantial loss of benefits. Small employers, meanwhile, are less likely to offer benefits. In contrast, most large corporations offer health benefits, retirement programs and access to tax-deferred savings. Decisions about career, such as taking one job or leaving another, can affect retirement security. For couples, decisions made by either partner can affect the family.

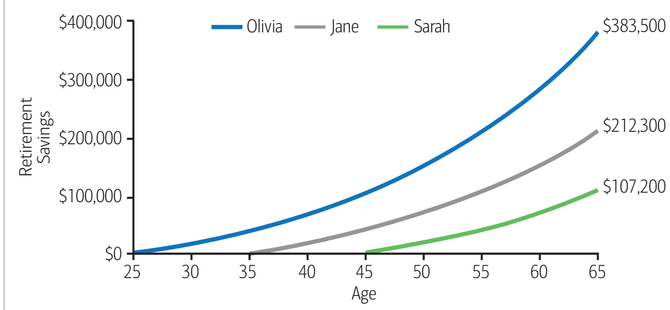
TIPS

- Saving early is very valuable. Savings can help increase a woman's chances of having enough to last through her retirement years.
- Carefully consider investment options and implications of being conservatively invested over a longer period of time.[8]
- In making career and job choices, consider the employee benefits available in the industry and company.
- If switching jobs, consider what benefits might be lost.
- If your employer does not offer a retirement savings plan, consider saving in an Individual Retirement Account.

Starting early can make a significant difference over time

Consider the case of Olivia, Jane and Sarah (Figure 1). Olivia puts $250 per month into a retirement account starting at age 25. Jane starts saving $250 per month at 35. Sarah starts saving that amount at 45. All three continue to add $250 per month until they retire at age 65. Accumulated savings vary dramatically depending on when each started saving for retirement. Olivia will have $383,500 in retirement savings, Jane will have about half that amount, and Sarah about one quarter.

Figure 1: Starting retirement savings at age 25 vs. 35 vs. 45



Note: Assumes a hypothetical annual rate of return of 5%. The analysis is on a pre-tax basis. Figures rounded to the nearest $100. Source: Calculations by Merrill Lynch Wealth Management

RELATIONSHIP AND FAMILY DECISIONS

Financial plans should help two people achieve their goals whether as a couple or as individuals. Couples may decide to marry or remain unmarried, and they may decide to share finances or keep them totally or partly separate. Family issues become more complex in families with children. The decision of who provides childcare typically affects both partners' career paths.

Couples face many hurdles, financial and otherwise, as they decide how to structure their lives. In many couples, the woman shoulders much of the homemaking and caregiving responsibilities, while the man is more likely to have a long-term, stable job offering the means to build retirement savings. Some couples accumulate debt rather than savings, with both parties bearing that burden. Such situations can leave a woman with unexpected problems later, particularly if she is no longer part of the couple.

Failure to pay attention to one's finances early in adulthood may leave a woman in a difficult situation later on. Similarly, decisions about whether to marry and divorce affect financial security. For example, Social Security offers widow and spousal benefits, but only to spouses, not partners. In addition, income taxes affect married couples differently than singles; and spouses generally have access to employer-sponsored health insurance and have rights under other benefit plans. Today, it is not unusual to be in a different marriage or relationship during retirement than during one's working years. Social Security benefits are available to divorced spouses who haven't remarried, but only if their marriage lasted at least ten years.[9]

[7] According to the U.S. Department of Labor Employee Benefits Security Administration's Women and Retirement Savings study, of the 62 million wage and salaried women (age 21-64) working in the U.S. just 45% participate in a retirement plan (August 2013).

[8] Merrill Lynch research shows that women report having less confidence in their investing knowledge. Source: Michael Liersch, *Women and Investing: A Behavioral Finance Perspective, Merrill Lynch Wealth Management, 2015*

[9] Source: Social Security Administration: https://www.ssa.gov/planners/retire/divspouse.html

TIPS

- Pay close attention to personal finances and seek to balance short- and long-term goals.
- For couples, each spouse should be actively involved in making financial decisions.
- Married couples should build a financial plan that works for them today but also for each spouse in the event of separation.
- Safeguard your own needs before deciding to help other family members financially.
- Stay-at-home spouses should consider seeking financial protection, including life and disability insurance; and both they and the breadwinner should consider putting money into a Spousal Individual Retirement Account (IRA).

HOME OWNERSHIP AND DEBT

Many American families find that their home is their greatest asset both early in life and when they reach retirement.[10] Housing is the largest expense for many families, during working years and afterward. Most homes are financed with mortgages that extend over long periods of time. Components of total housing costs include taxes, mortgage payments, utilities, lawn maintenance, repairs, and keeping furnishings up-to-date.

Many women are very attached to their house and want to remain there as long as possible. But in some situations, downsizing or moving may be a wiser choice. For families who have several children, the house may be larger than what is needed after the children leave home, and much larger than what is needed when a woman resides there alone. So women should carefully consider housing alternatives later in life. Women also need to weigh the implications of personal debt.

A new study, shows that credit card debt is the most common financial challenge facing benefit plan participants. Two-thirds say credit card debt is a common financial challenge, and 60% say participants have trouble saving for retirement.[11] Many couples reach retirement age carrying debt, and it is a common barrier to saving for retirement. For women, managing household and other types of debt are crucial issues as they plan for and reach retirement.

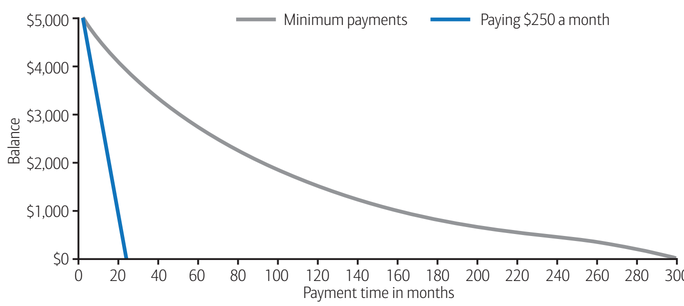
TIPS

- Don't spend more on housing than you can afford.
- Don't neglect the importance of retirement savings when deciding what is affordable during one's working years.
- Avoid carrying credit card balances or other expensive debt such as payday loans.
- It is important to keep debt to affordable levels.
- Establish a repayment plan and stick to it.

Pay off debt sooner rather than later

Sue has a credit card balance of $5,000, and the annual interest on the card is 12% (Figure 2). It would take nearly 25 years to pay off the balance if she paid only the minimum of 2%, accruing $4,698 in interest. But it would take less than two years to retire the debt if Sue paid $250 each month.

Figure 2: Paying off debt sooner rather than later



This is a hypothetical example meant for illustrative purposes only.
Source: Calculations by Merrill Lynch Wealth Management

CAREGIVING

The term "caregiving" typically connotes raising children or grandchildren, but it often extends well beyond that. Women are the most common caregivers for aging parents or spouses who need help. Women with careers struggle to balance caregiving with career, and many scale back or leave jobs to care for loved ones. Yet the family may have a variety of options with regard to caregiving. A decision to leave a job for caregiving may mean sacrificing one's own future retirement security. Before deciding to scale back a career or retire prematurely, a woman should consider the impact on her future and weigh all possible options.

Note that the options facing caregivers critically depend on whether the loved ones who need care have financial resources and/or long-term care insurance. That is a longer-term issue requiring advanced planning.

[10] The Society of Actuaries' "Segmenting the Middle Market" study shows that for middle mass households aged 55-64, nonfinancial assets were 65% of total assets for married couples and more than 80% of total assets for single female and single male households. This study can be found at https://www.soa.org/Research/Research-Projects/Pension/research-seg-middle-market.aspx. It uses data from the 2010 Survey of Consumer Finances.

[11] International Foundation of Employee Benefit Plans, "Financial Education for Today's Workforce," 2016 Survey Results.

TIPS

- Think carefully before assuming caregiving obligations that could make continuing in your job impossible.
- Do the math to understand how your decision may affect your future financial security.
- Caregiving should be a shared responsibility. If you scale back or leave your job, focus on how to preserve your long-term financial security through alternative means.

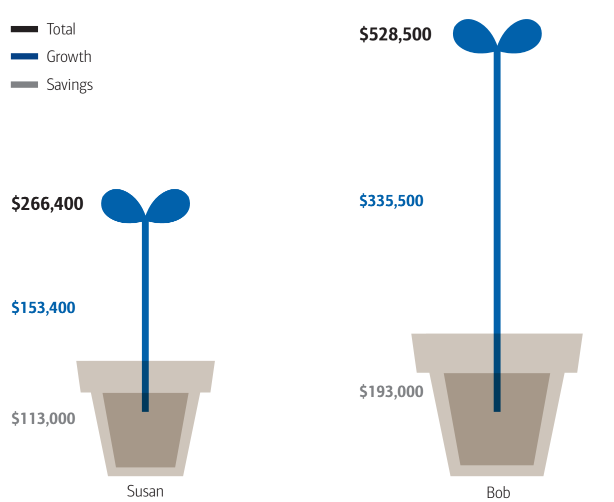
Different life paths and retirement saving outcomes

Both Bob and Susan start saving toward retirement at age 25. The table below shows their annual retirement contributions from 25 to when they both retire at 65. Bob consistently saves and progressively increases his annual contributions. Susan initially contributes $3,000 but then takes time off to care for her children and elderly parents from age, 31 to 45. Due in part to compound interest, Bob's total accumulated savings at retirement is $528,500. In contrast, Susan's savings at retirement is $266,400. The difference between the two is significant — a total of $262,100.

Table 1: Annual retirement contributions of Susan and Bob

Age	25-30	31-45	46-50	51-65
Susan	$3,000	$0	$4,000	$5,000
Bob	$3,000	$4,000	$5,000	$6,000

Figure 3: Retirement savings of Susan vs. Bob



Note: Assumes a hypothetical annual rate of return of 5%. The analysis is on a pre-tax basis. Figures rounded to the nearest $100. Source: Calculations by Merrill Lynch Wealth Management

WHAT TO CONSIDER AS YOU NEAR RETIREMENT

When you retire has far-reaching implications. If a woman retires later, she has more time to save and invest before and less time requiring funds afterward. Research shows that many Americans can live much more comfortably in retirement if they work two to four years longer.[12]

As women are living longer, their assets need to last longer. A woman can help ensure income long into her retirement years by accumulating assets in her working years and carefully determining when best to claim Social Security and pension benefits.[13] If her income from Social Security and pensions will not cover her essential expenses, she should consider allocating some assets to lifetime income annuities.[14]

As one nears retirement, planning also becomes more intense. People must make decisions, even knowing that market fluctuations or other changes will occur once retirement begins. The plan should allow flexibility for such changes. Women who are part of a couple need to link their plans to those of the family, while keeping in mind the likelihood that they may ultimately be alone.

TIPS

- Carefully consider when to retire.
- When to claim Social Security is another very important decision for many families. Claiming decisions affect survivors benefits as well as benefits at the time claimed.
- Long-term care costs can be unmanageable for many families. If the first spouse to die needs substantial long-term care but lacks adequate insurance to fund it, the survivor can be left with few assets. So long-term care insurance is particularly important for women.

In closing: Key Insights

- Life decisions surrounding work and family have an impact on retirement, though often a hidden one. You should weigh the long-term impact of such decisions before moving ahead.
- Change is part of life. A plan should provide for current circumstances but build in protection in the event of change.
- Women often focus on what is best for their families. But they should not forget about themselves.
- Many people do not plan for the long term. But doing so is absolutely critical to help ensure financial security through one's retirement years.
- Most important, women need to recognize the unique financial challenges they face. To help meet these challenges, they should start saving and investing as early as possible.

12 Alicia H. Munnell and Steven A. Sass, *Working Longer: The Solution to the Retirement Income Challenge*, Brookings Institute Press (2008).
13 For more on this, see David Laster and Anil Suri "Claiming Social Security" Merrill Lynch Wealth Management, 2016
14 Research shows that women are more likely to miss not having a regular paycheck in retirement. Refer to: Society of Actuaries and Wiser "Impact of Retirement Risk on Women" 2013

Anna Rappaport is an internationally recognized expert on the impact of change on retirement systems and workforce issues. Following a 28-year career with Mercer Human Resource Consulting, Anna has established her own firm, specializing in strategies for better retirement systems. She is committed to improving America's retirement systems, with special focus on women's retirement security.

Anna has been a leader in the planning, management, and execution of a major research program by the actuarial profession, focused on enhancing retirement security in America. She is a Past President of the Society of Actuaries (1997-98) and has chaired the Society of Actuaries Committee on Post-Retirement Needs and Risks for more than 15 years. Anna is a frequent speaker and contributor to business and trade publications, and is the co-author of three books on various retirement issues.

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