Women and Retirement: Closing the Gender Gap

Women will have longer retirements.

First, women generally live longer than men. Because of their longer life expectancies, women may need to plan for more years in retirement and anticipate that they may spend some of their retirement years 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.[1]

Women have less time to save.

Women are also more likely to leave their jobs to care for children or aging parents. Women who remain in the workforce are much more likely to request flexible schedules to meet primary caregiving responsibilities, which can also affect their salaries and career advancement.

Moving in and out of the workforce has several significant financial implications:

- Lost income and employer benefits and possibly lower savings
- A potentially lower Social Security benefit since the figure is based on the number of years worked and amount earned
- Economic vulnerability in the event of a divorce, job loss, or a spouse's job loss or death
- Difficulty finding a job or a comparable job in terms of pay and benefits when reentering the workforce

Women continue to face a wage gap.

According to the Bureau of Labor Statistics, women who work full-time earn, on average, about 82% of what men earn, which further impacts their savings, Social Security benefits, and pension.[2]

Planning for retirement

To plan for a secure retirement, especially in light of these special challenges, you first need to consider your anticipated expenses and the effects inflation and taxes will have on your income once your leave the workforce.

Expenses

A rule of thumb is that you should plan on needing 60% to 90% of your pre-retirement income when you leave the workforce. Although this is a handy reference point, it's important to focus instead on all your current expenses and how those will change over time as you transition into retirement.

Inflation

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, the risk that the purchasing power of a dollar will decline over time because of the rising cost of goods and services.

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 so you should have a strategy that allows your income stream to grow throughout retirement.

Taxes

Taxes can also reduce 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 taxation. For example, private pensions are generally fully taxable. A portion of your Social Security benefits may be taxable, depending on your filing status and total annual income.

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Health Care Costs

Not only does a longer life expectancy mean more retirement years to plan for, it also means you'll 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 for the surviving spouse.

Long-term Care

- Consider long-term care insurance, which may provide a source of funds for long-term care expenses but even that doesn't ensure you won't have to pay for some of the costs out-of-pocket. And the premium for insurance will need to be factored into your retirement income needs. About 57% of women will need some type of long-term care services at some point during their lifetimes after age 65.[3]
- Currently, the nationwide average monthly cost of a semi-private room in a nursing home is $6,884.[3]
- Other less expensive options may include assisted living facilities, adult day care centers, and home health aides.

Medicaid

- You will have to use up most of your savings before you even qualify for Medicaid and, aside from a small personal needs allowance, about $2,000 a year in most states, 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.

How long will retirement last and how will you pay for it?

The average 65-year-old woman in the United States can expect to live about another 20 years.[4] 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. Retirement income usually includes traditional employer pension income, Social Security, and individual savings and investments.

Pension

If you have a pension, you're extremely lucky. According to the Pension Rights Center, only about 22% of all workers (private sector, state, and local government workers) have a pension, about 137 million full- and part-time employees overall. Contact your pension plan provider to determine your options.

Social Security

Social Security is the major source of guaranteed lifetime retirement income for most Americans.

Social Security in retirement

Regardless of when you decide to take Social Security, for most women, this benefit alone will not provide enough income in retirement. After assessing your pension and Social Security income and subtracting your expenses, you'll be able to determine whatever additional income you'll need to cover any gap that will need to be made up through your individual savings and investments.

Personal Savings

Personal savings include funds you have in tax-advantaged accounts like individual retirement accounts and 401(k), 403(b), and 457 plans, as well as any additional investments.

A 401(k) plan and other employer-sponsored retirement plans can be 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.[5] 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 through compound interest. And many employers match a portion of the amount you contribute, providing you with free money to put toward your retirement.

Compensating for Being Short on Retirement Savings

What can you do if you discover that your projected income still won't meet your projected expenses in retirement? The best solution for dealing with a potential income gap 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.

Here are a few things to consider:

1. **Delaying retirement through a full- or part-time position with your employer could be a sound option.** The longer you work, the longer you'll be able to continue contributing to your retirement savings and the longer you can delay taking withdrawals from your account and postponing claiming Social Security benefits. Additionally, continued employment could result in ongoing access to company-sponsored health insurance.
2. **A number of non-financial reasons also may motivate you 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 pursuing full- or part-time work, launching a new career, or starting your own business is the right decision for you.
3. **You may also discover potential sources of income in your home.** If you have built up substantial home equity, you may be able to tap it as a source of retirement income, either by selling the home and downsizing or borrowing against its value.
4. **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.

Securing a Confident, Comfortable Retirement

Life is unpredictable — companies downsize, couples divorce, illnesses and injuries arise, adult children need financial help, parents need care, and spouses pass away.

But while you can’t control these things, you can take steps to secure your retirement regardless of where you are on your savings path. It’s one of the best things you can do for your long-term financial, physical, and emotional well-being.

Visit with your financial professional or call 800.888.2461 to learn more about solutions that can take you *To and Through Retirement*®.

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[1] Cohort Life Expectancy - 2020 OASDI Trustees Report

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

[3] Full Retirement Age of age 66 or 67

[4] Understanding Pre-Tax and After-Tax Investments

[5] Refers to traditional accounts (contributions to Roth accounts have different tax treatment). Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax.

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