
Retirement Savings
Challenges for Women
And Strategies to Help Overcome Them

[V19N1]

Special Challenges for Women

- Longer life expectancies
- More likely to be living on their own
- More likely to take career breaks for family caregiving
- Often earn less, have less retirement savings and a lower Social Security benefit

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

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.

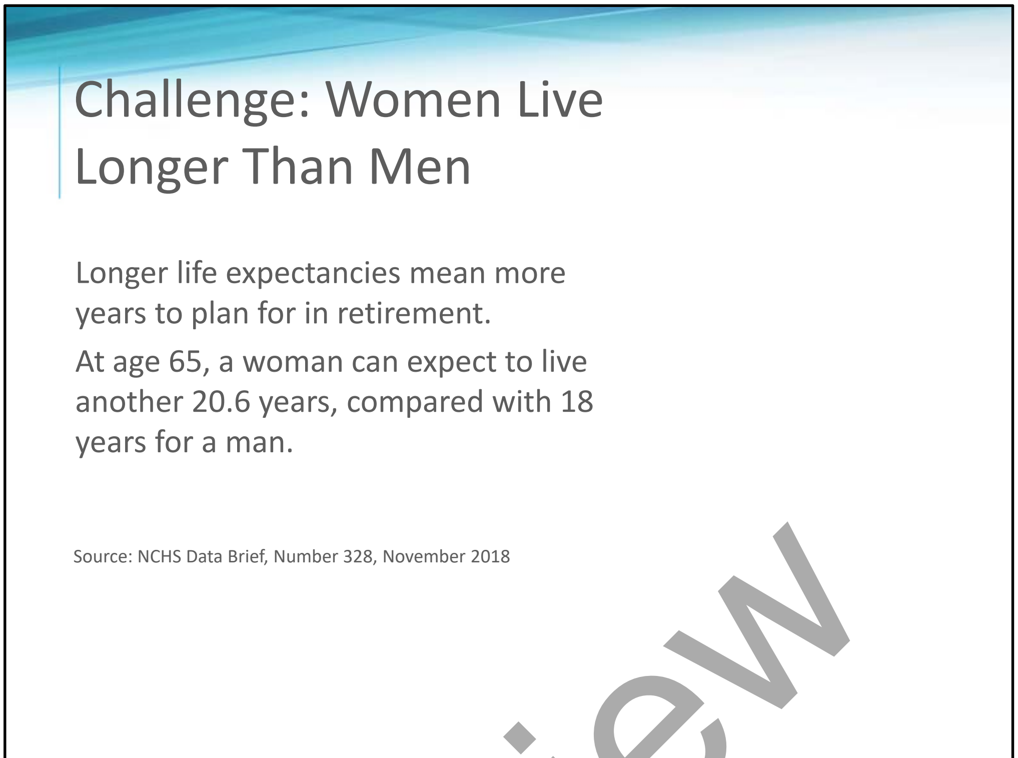
<CLICK> First of all, women generally live longer than men, which means they may need to plan for more years in retirement.

<CLICK> Because of their longer life expectancies, women should also consider that they may spend some of their retirement years living on their own.

<CLICK> Women often interrupt their careers to care for children and aging parents.

<CLICK> 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.

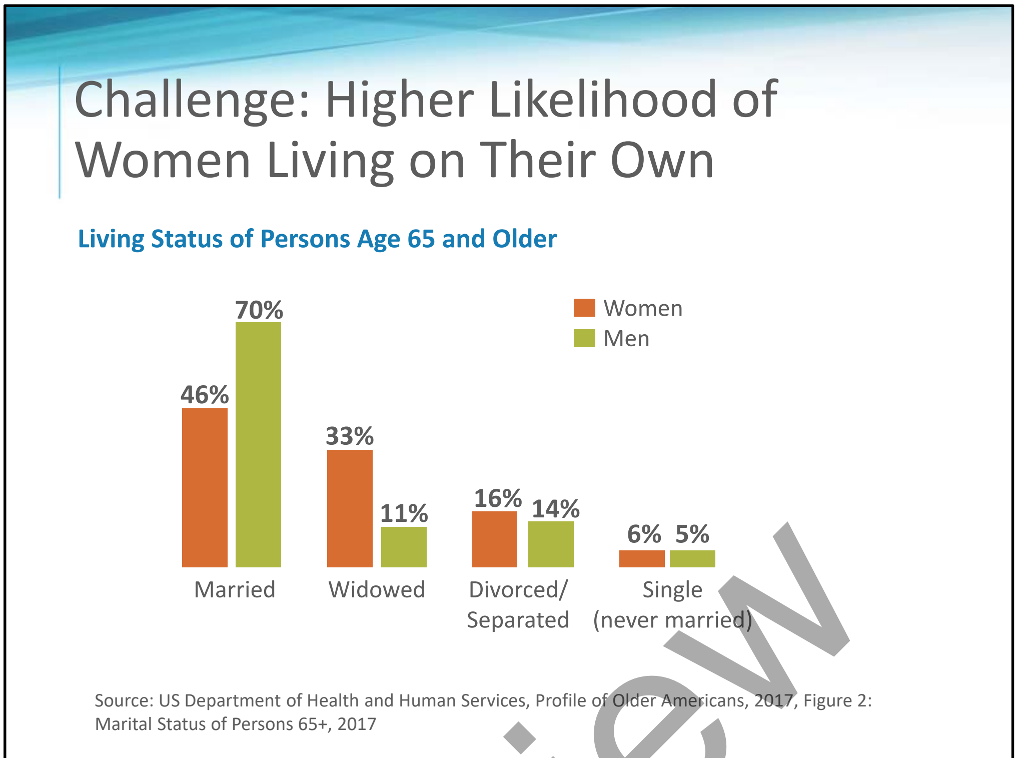
It's important to recognize these challenges and plan accordingly. Let's look at each challenge a little more closely.



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.

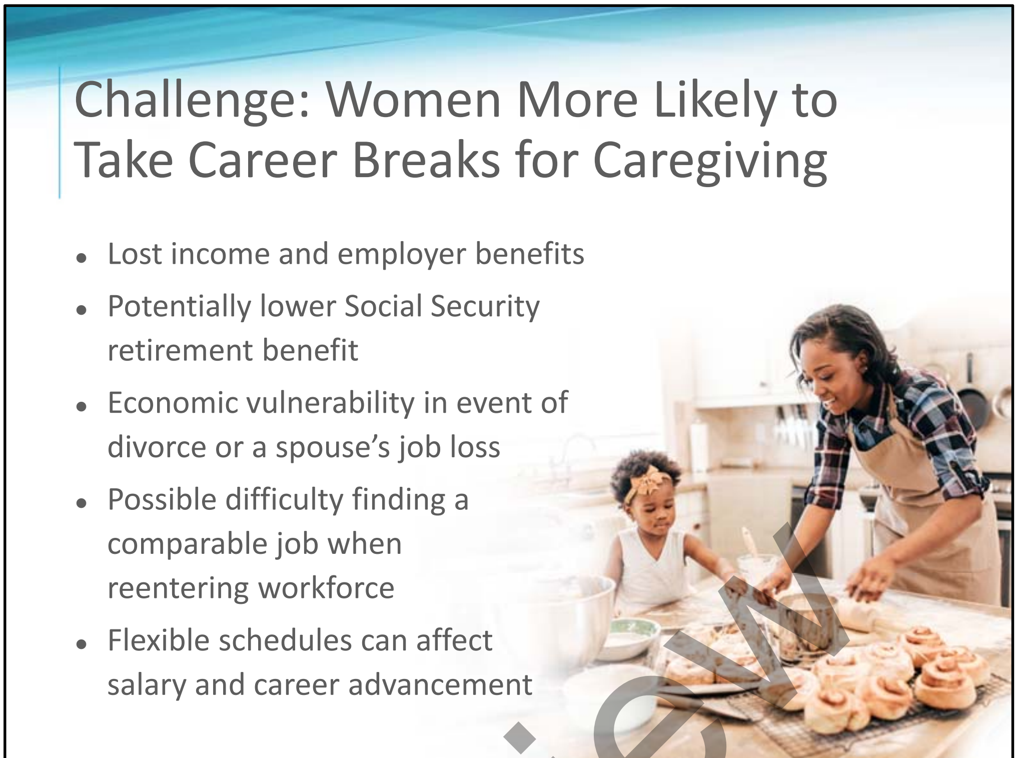


Women have a higher likelihood of living on their own in retirement.

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, 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.



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:

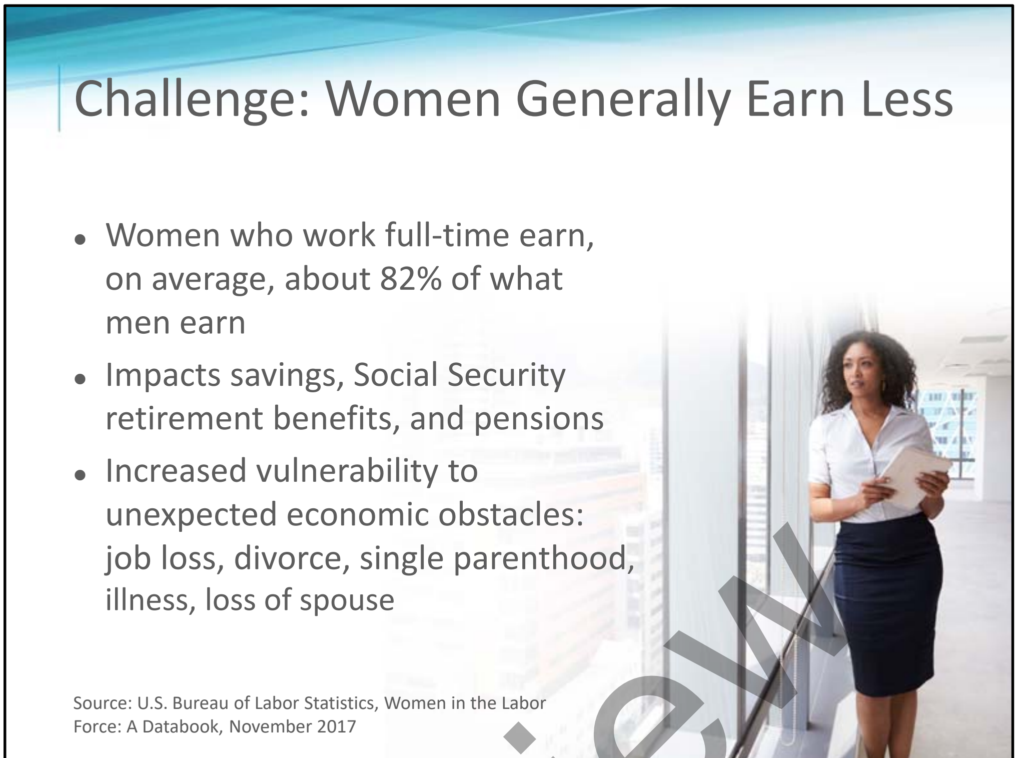
<CLICK> Lost income and employer benefits, such as retirement benefits and health insurance. Lost income means potentially lower savings.

<CLICK> 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.

<CLICK> Economic vulnerability in the event of divorce or a spouse's job loss.

<CLICK> Possibly a more difficult time finding a job, or a comparable job in terms of pay and benefits, when reentering the workforce.

<CLICK> 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.

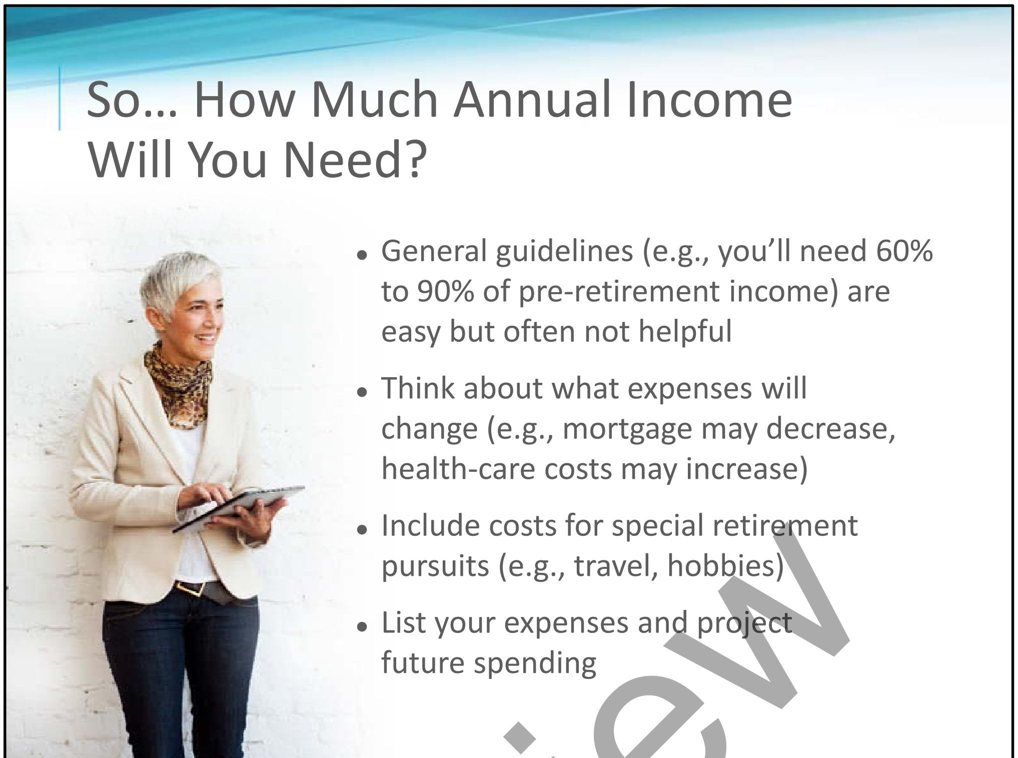


Women generally earn less than men.

<CLICK> According to the Bureau of Labor Statistics, women who work full-time earn, on average, about 82% of what men earn.

<CLICK> This wage gap can affect overall savings, Social Security retirement benefits, and, for those lucky enough to have one, a pension.

<CLICK> 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.



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?"

<CLICK> 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.

<CLICK> 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.

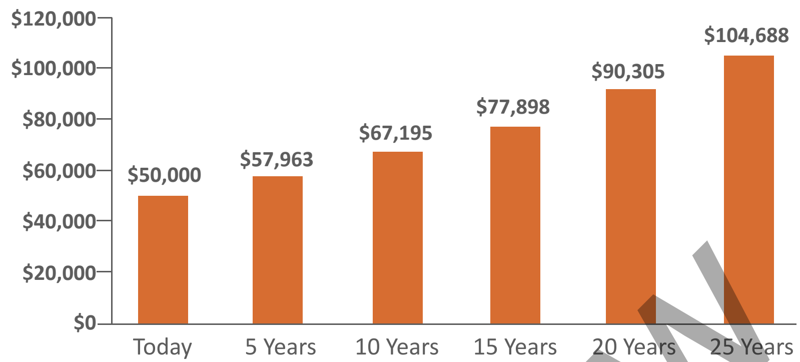
For example, some expenses like a mortgage and the costs of commuting to and from work may disappear during retirement; other expenses may increase, like yard care services, snow removal, or home maintenance — things you might currently take care of yourself but may not want to do, or might be unable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

<CLICK> 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.

<CLICK> 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.

Accounting for Inflation

Assuming 3% inflation, in 25 years it will cost you over $100,000 to buy the same goods and services that $50,000 would purchase today.



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.

Impact of Taxes

- Ordinary income tax (e.g., interest)
- Special tax rates for long-term capital gains and qualifying dividends
- Tax-free income (e.g., certain municipal bonds)*
- Special rules for tax-advantaged accounts

*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.

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.

<CLICK> Keep in mind that some income, like interest, is taxed at ordinary income tax rates.

<CLICK> Other income, like long-term capital gains and qualifying dividends, currently benefit from special — generally lower — maximum tax rates.

<CLICK> And some specific investments, like certain municipal bonds, generate income that can be exempt from federal income tax, and sometimes state tax as well.

<CLICK> 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.