



Society of Actuaries
Key Findings and Issues: The Impact of Retirement Risk on Women
2005 Risks and Process of Retirement Survey Report
August 2006

Introduction and Background

The baby boom generation is on the threshold of its long-heralded maturity into senior citizen status. For this generation as well as previous ones, there are significant differences in the life circumstances and work histories of men and women. At the same time, recent changes in employee benefit programs are transferring more risk to employees and creating challenges that are often unfamiliar. Women live longer and are more often alone in old age, and they are more likely to be adversely affected by the increased responsibility for personal risk management. These risks can easily overwhelm the unprepared, and should be understood as a critical issue for all Americans, not just retirees. Women, because on average they live longer than men, are the majority of these older Americans,^[1] making the management of their retirement security all the more important for them.

Traditionally, retirement planning focused on the period preceding retirement. Several years ago, the Society of Actuaries, recognizing the need to address the management of risk after retirement, instituted a Retirement Needs Framework Project. As part of this project, the Society has had research on public attitudes toward retirement in 2001, 2003 and 2005 conducted on its behalf by Mathew Greenwald & Associates, Inc., and by the Employee Benefit Research Institute (EBRI). The purpose of the latest in this series, the 2005 Risks and Process of Retirement Survey, was to evaluate Americans' awareness of possible risks, how this awareness had changed since 2003 and how it affects the management of their finances with respect to retirement.

The 2001 and 2003 studies separately analyzed current retirees and those not yet retired, who are referred to in these reports as 'pre-retirees.' A separate study, The Retirement Plan Preferences Study, sponsored by the Society of Actuaries and the American Academy of Actuaries, focused on the preferences of employees for different plan features and distribution methods. The 2005 Risks and Process of Retirement Survey covered people age 45 to 80, and the Preferences Survey covered all adults who are participating in pension plans or have retired with benefits from an employer-sponsored retirement program. A description of methodologies and some discussion about the populations studied follows.

Households were selected for the survey from a nationwide targeted list sample. At the 95% confidence level, the margin of error for study results is ± 6 percentage points. The results of the survey apply to Americans on average. The studies should be viewed as representative of the population surveyed as a whole without providing specific insights into behaviors and values of high net worth individuals. Only 2% of individuals in the survey reported \$1 million or more in savings and investments. Four percent of pre-retirees and 9% of retirees report savings and investments of between \$500,000 and \$1,000,000. Fifteen percent of pre-retirees and 10% of retirees report household incomes of at least \$100,000. At the low income end of the spectrum, however, 15% of pre-retirees and 21% of retirees report incomes less than \$25,000.

This report, based on the 2005 Survey, provides key results and discusses issues of particular importance to women, and relates them to the life circumstances of women and to other studies. The report also focuses on differences and similarities in the retirement risks faced by men and women. The discussion sections in this report include input from all organizations that supported the studies. This report was prepared in cooperation with the Women's Institute for a Secure Retirement (WISER) and the Heinz Family Philanthropies. Other reports in this series address the process of retirement, retirement risks and longevity.

1. In the US Census 2000, 55% of the age group 65-74, 61% of those 75-84, and 71% of those 85 and older were female.

Overview of Post-Retirement Risks: Special issues for Women

Risk	Potential Range of Risk	Products for Risk Transfer
Outliving Assets	At age 65, average life expectancy is 17 years for American men and 20 for women. This means that half those retiring at 65 will survive longer. Thirty percent of all women and almost 20% of men age 65 can expect to reach 90. ^[2]	Annuities, including joint and survivor annuities and deferred annuities commencing at higher ages, such as 75, 80, or 85.
Loss of Spouse	Because women have traditionally been younger than their spouses, periods of widowhood of 15 years or more are not uncommon. For many women, the death of a spouse is often accompanied by a decline in standard of living.	Joint and survivor payment options in pension plans; joint and survivor life annuities; life insurance
Decline in Functional Status	The cost of care as older people become frail may amount to millions of dollars for a couple over their lifetimes. Nursing home care costs may exceed \$70,000 a year per person. ^[3] Care may be provided at home, in adult day care centers, assisted living facilities or nursing homes.	Long-term care insurance that helps pay for the cost of caring for disabled seniors. Many continuing care retirement communities (CCRCs) cap monthly costs for assisted living and skilled nursing care, but are subject to their own financial risks.
Health Care and Medical Expenses	Medical costs for retirees over 65 not covered by Medicare may exceed \$1 million for a couple over their lifetimes.	Medical insurance Medicare supplement insurance
Inflation	Over the period 1980–2005, annual inflation in the US for all items has ranged from 1.1% to 8.9%, and has averaged 3.3%. For medical care, the annual average has been 6.4%. ^[4] Inflation has generally been much higher outside North America.	Annuity products with cost-of-living adjustment Products with established increasing payments
Investment Risk	The volatility of stock market has been significant. Over the period 1987–2005, annual returns on the S&P's 500 Index averaged 9.4%, but have ranged all the way from -23.4% (2002) to +34.1% (1995).	Annuities that guarantee lifetime payouts Investment products with principal guarantees Investment products with minimum return guarantees
Premature Retirement Risk	A significant percentage of people retire sooner than they expected to either because of job loss or health reasons.	Early enrollment and consistent contributions to IRAs, 401(k)s, and other savings/investment vehicles.

2. US Life Tables, 2002

3. Expressed in 2005 Dollars

4. Consumer Price Indices, US Bureau of Labor Statistics

Differences and Similarities in Retirement Issues facing Men and Women

Key differences and similarities in retirement planning issues affecting men and women have a significant impact on retirement security.

Differences include:

- Work history and earnings: The median earnings of women working full-time was 76% of what men earned in 2002, while the median number of years worked for workers retiring in 2000 was 32 for women compared with 44 for men.^[5]
- Women live longer: At age 65, average life expectancy is 17 years for American men and 20 years for women.^[2]
- Marital Status: In old age, women are more likely than men to be widowed, divorced or never married.^[6]

Percentages of Population Widowed, Divorced, Separated or Never Married			
	65–74	75–84	85 and over
Men	22.1%	28.3%	44.9%
Women	45.5%	64.7%	85.9%

- Social Security: Women rely more than men on Social Security, and are more likely to receive benefits based in part on their spouse's earnings history. Ninety percent of white and African American women over age 65, and three quarters of Hispanic women receive Social Security. Without Social Security benefits, the poverty rate for older white women would increase from 10% to almost 51%; for African American women it would more than double to 60%, and without Social Security benefits, the poverty rate for Hispanic women would rise to more than 50%.^[7]
- Reentering Workforce: Women may have more difficulty entering the workforce if there have been significant periods of unemployment because of family care responsibilities.
- Impact of Increased Individual Risk Responsibility: Shifting risk to individuals affects women more than men because they live longer and are more likely to be the longer lived member of a couple. The impact of unanticipated risks is likely to be greater for a longer period after retirement.

5. Center for Retirement Research at Boston College, Just the Facts on Retirement Issues, April 2004

6. U.S. Census Bureau, Marital Status of the Population 55 Years and Over by Age and Sex: March 2000

7. U.S. Bureau of the Census, March 2002 Current Population Survey, Analysis Prepared by the AARP Public Policy Institute

Differences and Similarities in Retirement Issues Facing Men and Women (continued)

Similarities among women and men include:

- **Pension Plan Changes:** Both men and women are affected by changes in the structure of pension plans. Corporations are moving away from traditional defined benefit pensions to defined contribution plans such as 401(k)s and self-directed IRAs. This is shifting the risk of investment and mortality from corporations to employees, a burden many are not prepared to manage.
- **Risk Knowledge:** The risk knowledge of full-time workers is comparable based on results from the 2005 Retirement Risk Survey. Their planning horizon is also comparable as observed during focus groups conducted for the SOA/LIMRA study, “Spending and Investing in Retirement: Is There a Strategy?”
- **Saving Philosophy:** The likelihood of saving as much money as possible among full-time workers is nearly identical, according to results from the 2005 Retirement Risk Survey.

Highlights of 2005 Retirement Risk Survey Results by Gender

Overall, the differences in responses to the risk survey between men and women are minor. Among pre-retirees, women are more likely than men to worry about inflation, not being able to afford long-term care, maintaining a reasonable standard of living, depleting all savings and investments and being left only with Social Security, and not being able to rely on family to provide assistance. They are also more likely to say they are very concerned about having enough money to pay for adequate health care. In addition, pre-retiree women are more likely than men to say that a likely consequence of living five years longer than expected would be to exhaust all of their savings. On the other hand, retiree women and men appear equally likely to be concerned about all of these risks.

Women, on average, tend to offer higher estimates of average and personal life expectancy. This tendency is consistent with their longer life expectancy, on average, than men. However, male pre-retirees are more likely than female pre-retirees to provide an age for personal life expectancy that is higher than actual life expectancy.

Women and men generally attempt to manage risk similarly, although women are more likely than men to say they have cut back on spending in an attempt to protect themselves financially as they get older. Retiree women are more likely than retiree men to indicate they have supplemental health insurance, while pre-retiree men are more likely than pre-retiree women to report having purchased long-term care insurance.

It should be noted that subgroup differences are extremely sensitive to sample size. The following three pages illustrate selected detailed survey findings.

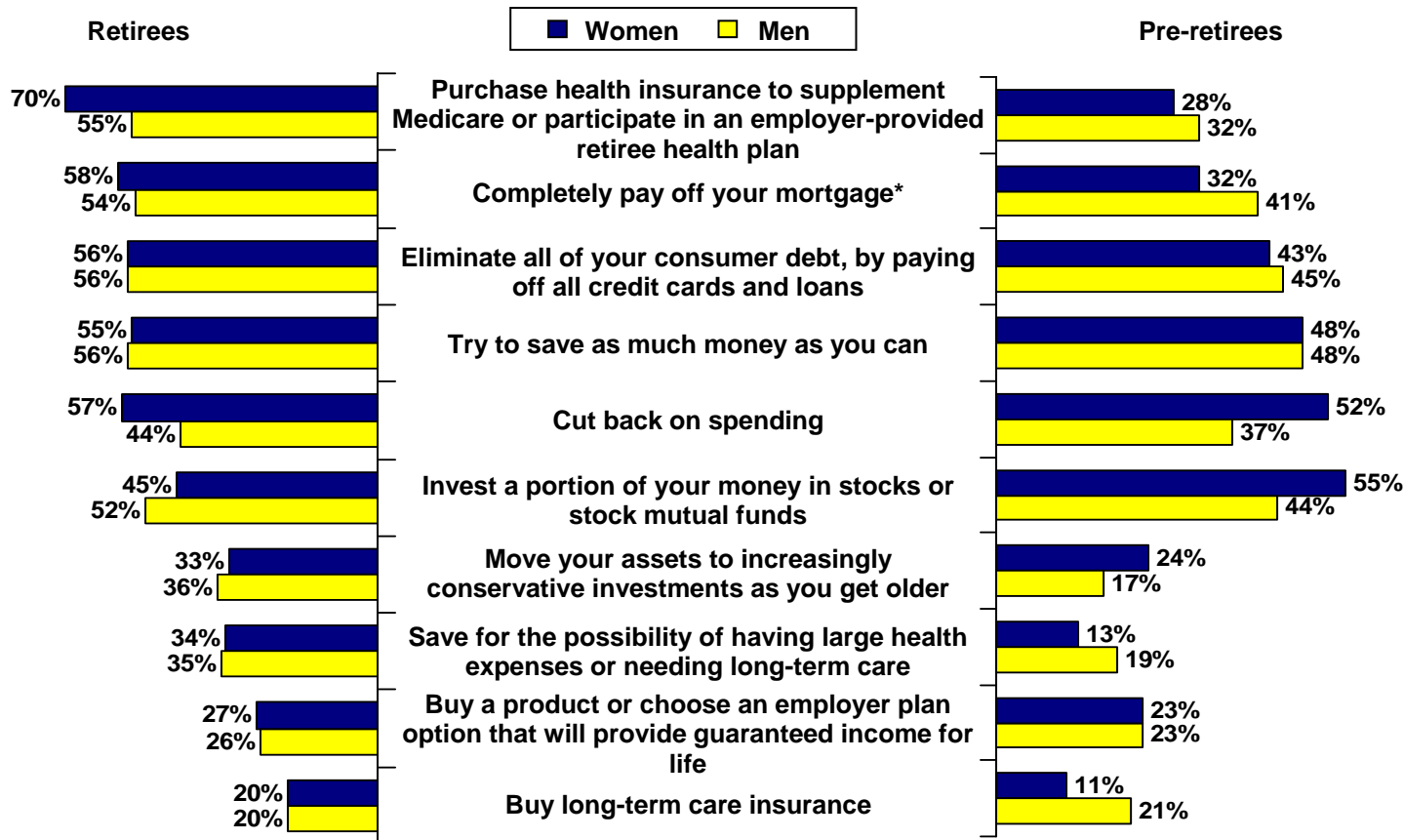
Even though the perceptions of men and women are similar, the resulting impact of their behavior is different because their overall situation differs. The expected length of retirement for men and women differs significantly with the most fundamental reason being that women live longer. Also, among married couples, women have traditionally been younger on average than their husbands, making it even more likely that women will spend additional years in widowhood.^{8]} The employment and wage histories of men and women in America are also quite different, and historically have been disadvantageous to women, so that they are likely to have significantly lower pension and Social Security benefits than men. However, women are also more likely to have meaningful survivor benefits. They are also more likely to need long-term care provided by a paid caregiver or in a nursing home.

8. In the 2000 US Census, 54.6% of women aged 75–84 were widows; at age 85 and above, 71.6% were widows.

Survey Finding: Overall, women and men manage risk similarly with women more likely to cut back on spending as a strategy.

Have you (and your spouse) done the following to protect yourselves financially as you get older?

(Retirees, males=144 females=158; Pre-retirees, males=144 females=156)

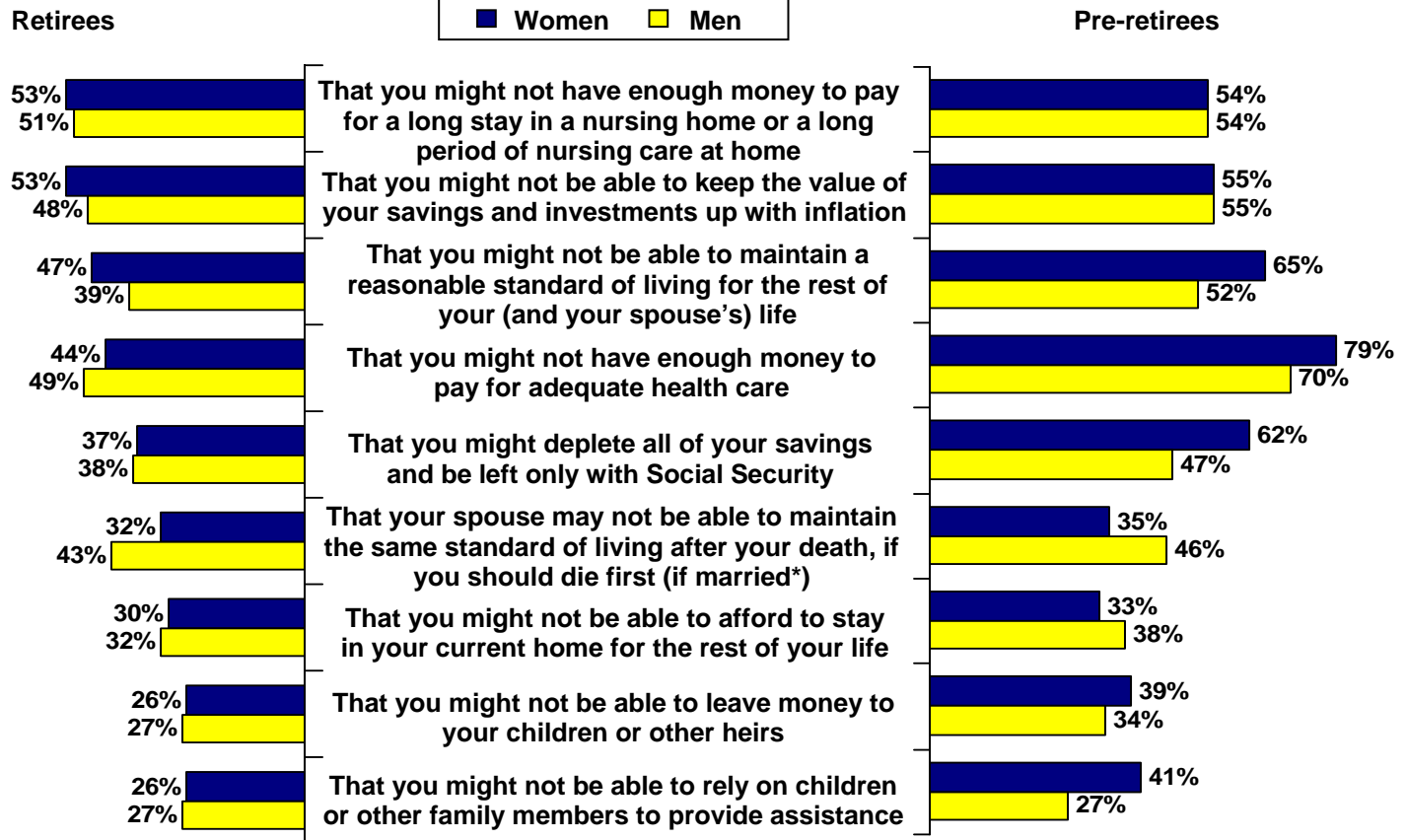


*Asked only of homeowners

Survey Finding: Women and men share similar levels of concerns with women more concerned about inflation, long term care, and standard of living.

How concerned are you . . . ?

(Retirees, males=144 females=158; Pre-retirees, males=144 females=156)



*Asked only of married respondents

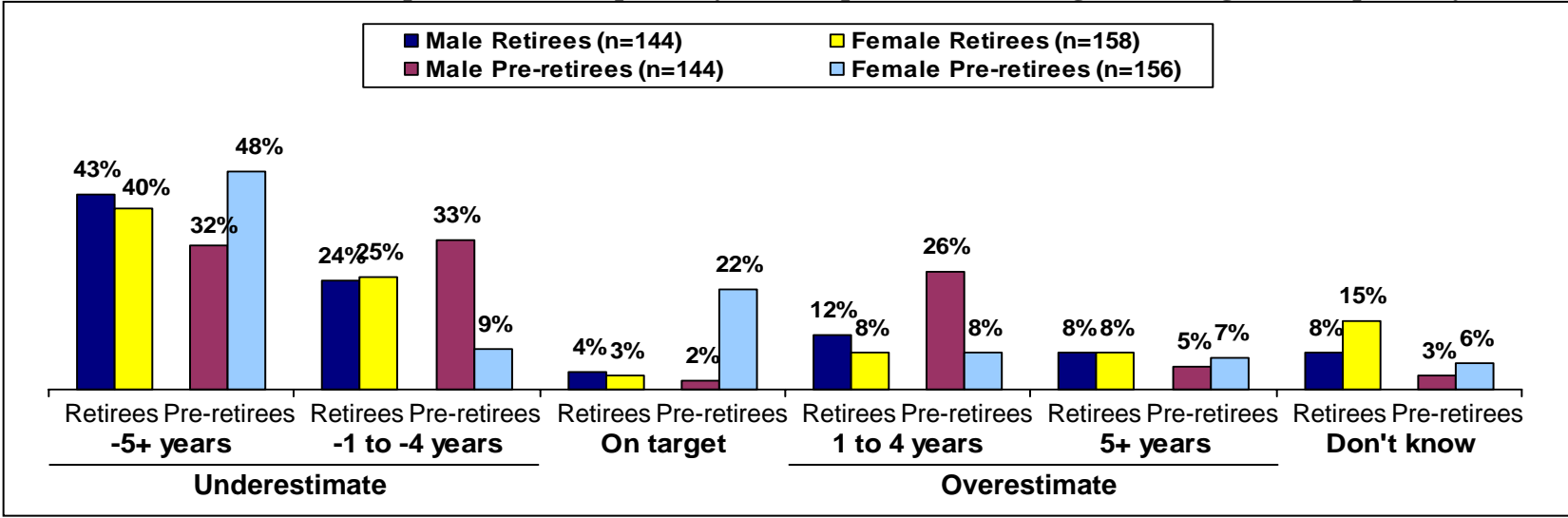
Survey Finding: Among both men and women, there is inadequate understanding of average life expectancy.

Finding

Among both retirees and pre-retirees, men and women underestimate the average life expectancy for someone their own age and gender (68% male retirees, 66% females retirees, 65% male pre-retirees, 57% female pre-retirees).

Female pre-retirees are more likely to offer an on-target estimate of average life expectancy (22%), while pre-retiree males are likely to overestimate the average life expectancy for a male their age (31%).

**Until what age do you think the average person your age and gender can expect to live?
Difference between Population Life Expectancy and Respondent Knowledge of Average Life Expectancy**



Source: 2005 Risks and Process of Retirement Survey

Social Security, Pensions and Women

Forty percent of elderly women alone receive more than 90% of their income from Social Security. Women receive Social Security benefits in a variety of different ways. For further perspective, the following two tables provide a profile of women receiving benefits from OASDI and the type of benefits and the nature of how they are entitled to benefits:

Table 1		
<u>Beneficiary Type—All Women</u>	<u>Number (millions)</u>	<u>% of all Women</u>
Retired Workers	13.9	57.4%
Disabled Workers	2.3	9.5%
Widows	4.8	19.8%
Wives	2.9	12.0%
<u>Disabled Adult Children</u>	<u>0.3</u>	<u>1.3%</u>
Total	24.2	100.0%

Table 2		
<u>Beneficiaries Over Age 62</u>	<u>Number (millions)</u>	<u>% of all Women</u>
Worker Only	8.2	38.4%
Wife/widow only	7.2	33.8%
<u>Dually entitled</u>	<u>6.9</u>	<u>27.8%</u>
Total	22.3	100.0%

The benefits that go beyond worker benefits are critical to women. Of the women over age 62 collecting benefits, one third are collecting benefits solely based on earnings of their spouse, and more than one quarter collect benefits beyond those earned from their own work because of spousal benefits.

Social Security, Pensions, and Women (continued)

Timing of Retirement and Impact on Social Security Benefits

About 60% of today's retired women receive Social Security benefits based in part of their husband's or former husband's work records. In evaluating timing of retirement, beneficiaries often forget that if the husband retires later, it will result not only in a larger benefit for him, but also a larger spouse benefit while he is alive and a larger widow's benefit to a surviving widow when he is no longer alive. When spouse and widow's benefits are considered, later retirement becomes much more attractive.

Impact of Changes in Social Security and Pensions on Women's Retirement Security

Women's workforce participation at an older age is influenced by Social Security benefits and pensions.^{9]} Changes in Social Security and typical pensions are a source of concern for women's well-being in old age. Social Security benefits as a share of workers' earnings, so-called "replacement rates," are expected to decline in the future as a result of the phasing in of an increase in the retirement age at which full benefits can be received. The progressive benefit formula of Social Security has meant that Social Security replaces a higher proportion of pre-retirement income for lower income earners, which would have a disproportionate benefit for women, given their lower average wage (especially for single women, since married women tend to get benefits related to their husbands' earnings). The impact of the redistribution may decline over time with changes in labor force participation and possible future changes in Social Security. The rising labor force participation and earnings of women will increase the Social Security benefits women earn on their own (rather than being provided as spousal benefits).

Changes in typical pensions are also a source of concern. A lack of inflation indexing in private pensions may hurt those who live the longest, thus disproportionately affecting women who have a longer average life expectancy than men. The shift from defined benefit to defined contribution plans are beneficial for workers who do not stay at one job for a long period of time, which may help women who have intermittent workforce participation, but retirement benefits paid from defined benefit plans in the form of life annuities offer in general some greater protection against the risk of outliving assets. Clearly, a sensible plan for saving before retirement and then spending in retirement for women is critical.

9. Honig, Marjorie, "Married Women's Retirement Expectations: Do Pensions and Social Security Matter?" *American Economic Review*, Vol. 88, No. 2, Papers and Proceedings, 1998, pp. 202-206; Munnell, Alicia H., "Why Are So Many Older Women Poor?" Center for Retirement Research at Boston College, April 2004.

Life Spans and Their Variability

Women have longer average life spans than men. Married women are likely to outlive their husbands both because of their longer life spans and because they often marry older husbands. Life expectancies for women and men are as follows:

US Life Expectancies at Birth, Ages 65 and 85							
<u>Males</u>	1900	1920	1940	1960	1980	2000	2050 projection
Birth	46.4	54.5	61.4	66.7	69.9	74.0	79.4
Age 65	11.4	11.8	11.9	12.9	14.0	15.9	18.9
Age 85	3.7	4.0	4.1	4.6	5.1	5.2	6.3
<u>Females</u>							
Birth	49.0	56.3	65.7	73.2	77.5	79.4	83.2
Age 65	12.0	12.3	13.4	15.9	18.4	19.0	21.4
Age 85	4.0	4.1	4.4	5.1	6.3	6.4	7.5

Often for retirement planning, individuals will focus on *average* life expectancy without considering the *variability* of life expectancy. The variability of life expectancy is important to consider because while a 65 year old woman can expect to live, on average, until her mid-80's, many will live into their 90's or even longer. As illustrated in the above table, the greater life expectancy of women coupled with the trend of increasing life expectancy emphasizes the importance for women to factor in this variability for resource planning including long term health care needs.

Trends and hurdles for older women working

Labor market changes are affecting the employment and income outlook for older women. The labor force participation of women, which has traditionally been much lower than men's, has increased greatly in recent decades and by the 1990s, the difference between men and women's workforce participation rates had fallen to about 15 percentage points. In addition, women's wages relative to men's also rose. However, since 1990, both the increase in labor force participation and the relative wage increase have slowed. The issue of retirement security is especially important for women because their lower average wages, more intermittent workforce participation, and care-giving role make them more vulnerable to poverty in old age. Nearly 30 percent of single older women are poor or near poor. [10]

A number of studies have examined retirement decisions of older workers. Although most of these studies have concentrated on men, some have also looked at women, including both those who are single and married. Increased earnings, brought about by higher labor force participation rates or higher earning jobs, could provide women more security in retirement. Nevertheless, certain demographic trends are effectively offsetting some of the gains women have made through greater work participation and higher wages. For instance, increases in divorced and never-married women leave a greater proportion of women single at older ages and without the benefit of assets or pensions and annuities accumulated through a marital relationship. Family considerations also influence employment decisions as women are usually the primary family caregivers. In addition to child care, women are also care givers to ailing spouses and parents later in their lives. All of these situations point to the need for thoughtful and carefully considered family decision-making to maximize the financial security of women in retirement.

Risk Management Strategies and Women

Because women live longer, the risk of exhausting assets and other non-guaranteed benefits is a particularly critical concern for them. Women are also more likely to need long term care at a time when there is no family care-giver available. Some risk management strategies and considerations of special importance for women are:

Payout options from pensions for employee and spouse

It is critically important to be aware of the longer term implications in selecting payout options. Joint and survivor options provide life income for both spouses, often with a reduced benefit after either the death of the employee or the first death, depending on the structure of the option. The advantage of a life income option is income that cannot be outlived, but the tradeoff requires an irrevocable commitment. ^[11]

Carefully choose the timing of when Social Security benefits are claimed

The timing of when Social Security benefits are initially received by either spouse can have a major impact on survivor benefits. It is common to find recommendations for early claiming of benefits that ignore the impact of survivor benefits. See Page 9 for a discussion on Women and Social Security for further information.

Consider long term care insurance

Long term care insurance is an option to help provide funds for long term care needs. It can be a beneficial risk management vehicle for many, but not all. Its appropriateness will depend on an individual's overall financial situation and age. Policy provisions should be studied carefully before a purchase decision.

For married couples, make plans for financial resources to continue in the event of a spouse's death

Strategies to protect the survivor include investment strategies to preserve assets, life insurance, joint and survivor annuities and payout options, keeping some assets in separate names, and long term care insurance. Research shows that many couples plan for retirement, but neglect to prepare for the surviving spouse.

11. "Making Your Money Last a Lifetime" http://www.actuarialfoundation.org/consumer/Wiser_annuities.pdf a joint project of the Actuarial Foundation and WISER, discusses the trade-offs and issues in selecting an annuity.

Conclusions

Older Americans are faced with a range of risks during retirement. There are few differences in the way men and women perceive these risks, but significant differences in how the risks affect them. The studies cited in this report reveal many gaps in understanding of these risks and in the techniques for dealing with them. Even when there is awareness of these risks, this knowledge does not often seem to translate into changed behavior. This may be the result of personal preferences, lack of knowledge, or lack of resources. This survey indicates specific areas where education about retirement risks might help, but changes in benefit structure would provide a better solution. Certain risks that cause particular concern include inflation, long-term care, and the uncertain timing of death.

These challenges are all the greater because many women approaching retirement are not focused on the long term, but rather manage intuitively on a day-to-day basis. This report should serve as a call to action by employers and employees, and by all groups advocating for employees and retirees, to accelerate the enormous task of preparing the women of the Baby Boom generation for the challenges ahead.

Acknowledgements

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To Obtain a Copy of the Complete Survey Report

The 2005 Risks and Process of Retirement & Survey report may be obtained from the web site of the Society of Actuaries at www.soa.org.

Glossary

ADEA—The Age Discrimination in Employment Act, 1967 and as subsequently amended.

Baby Boomers; Baby Boom Generation—Those born in the United States from 1946 through 1964.

Defined Benefit—A retirement plan in which the pension benefit is expressed as a monthly or other periodic amount based on a formula typically reflecting earnings and years of service.

Defined Contribution—A retirement plan in which contributions to each participant's account are typically a percentage of earnings, subject to certain statutory limits in the case of qualified plans. Many of these plans allow employees to save on a pre-tax basis with their contributions matched in part, or fully matched by their employer.

Full Retirement Age—Defined by the Social Security Administration as the age at which monthly retirement benefits are available in full without reduction for early retirement. For birth cohorts through 1937, this has been established at 65. For those born in 1938, full retirement age for Social Security is currently set at 65 years and two months, increasing an additional two months for each subsequent birth year, reaching age 66 for those born from 1943 through 1954. It increases again by two months for each subsequent birth year after 1954, reaching age 67 for those born in 1960 and after.

High Income—An arbitrary amount of income or earnings which, for the purpose of these reports, is assumed to be in excess of \$100,000 annually for a family of two.

High Net Worth—An arbitrary amount of retirement savings, including defined contribution pension account balances, aggregating \$1million or more for a family of two.

Inflation—Annual increase in the Consumer Price Index as measured by the U.S. Bureau of Labor Statistics; it may be for all consumer items, or for specific subsets such as medical care.

Joint and Survivor Annuity—An annuity issued on two individuals under which payments continue in whole or in part until the second of the two dies (also sometimes informally referred to as a joint life annuity).

Life Expectancy—The average future remaining lifetime for a cohort of people at a specific age. For all Americans, life expectancy at birth in 2005 was 78; for females 80, and for males, 75. At age 65, life expectancy for males is 17 years, and for females, 20 years. Source: U.S. Bureau of Census Tables.

Longevity Bonds—Bonds that are designed to hedge exposure to mortality risk and where the payment of principal is linked to a mortality index.

Glossary

Life Span—The maximum possible extent of human longevity, generally taken by gerontologists and actuaries as 120 years. Two thoroughly documented cases are of, Shigechiyo Izumi, a Japanese man who died in 1986 at the age of 120, and of Jeanne Calment, who was born in Arles, France in February, 1875, and died there also in August, 1997 eight days short of 122½ .

Normal Retirement Age—For most traditional defined-benefit pension plans, this has been established as 65, the same age at which full Social Security benefits were available for birth cohorts through 1937. See also, ‘Full Retirement Age’

Phased Retirement—There is no standard agreed upon definition of phased retirement. It is used to describe such arrangements as working part-time before retirement or retiring and then taking a new job, becoming self-employed, or working on a limited basis for a former employer. Viewed broadly, it may include reducing one’s work schedule before retirement, changing duties at normal retirement age, working part-time in retirement or some combination of approaches to gradually phase out of the labor force. The definition of phased retirement is typically limited to situations where a partial pension payment is available or to a situation where the individual is working for the same employer as before.

Pre-retiree—Anyone still in the work force who has reached an arbitrary age—typically set around 50—at which planning for retirement begins to become a serious prospect. For the purposes of the 2005 Risk and Process of Retirement Survey, pre-retirees are at least age 45.

Qualified Plan—A pension plan under which contributions meet certain standards set by the IRS to be tax deductible for the plan sponsor and are tax-deferred to the participant. These plans are subject to numerous rules in order to maintain the favorable tax status.

Retiree—Traditionally, a person who, having attained a certain age—often, but not necessarily normal retirement age—has left the labor force, with no expectation of returning. Today, many retirees leave full-time work, but continue with some work. As retirement is changing, there is no clear definition of retirement, and self-declaration of status produces varying definitions when based on labor force participation criteria. Others tend to consider themselves retired if they are collecting retirement benefits. For the purposes of the 2005 Risk and Process of Retirement Survey, respondents have been classified as retired either through self-definition or if they have retired from their primary occupation.

Retirement—Exit from one’s job or occupation, typically at an age at which the individual has no expectation of returning full-time to the labor force.

Risk—Exposure to the probability of an event that will occur with certainty, but with unknown timing—death—or that may or may not occur, such as accident, sickness, becoming disabled, or outliving one’s assets.

SIPP—The U.S. Census Bureau’s Survey of Income and Program Participation.
