



Women Take the Wheel: Destination Retirement

MANAGING RETIREMENT DECISIONS SERIES



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Women have many decisions to make when approaching the junction in life called retirement. These are critical decisions that will help them arrive safely at a financially secure old age. This Decision Brief reviews some of the key decision points along the way.

First, it helps to assess the overall financial position of today's American women. This impacts the decisions they face in retirement.

Women retiring today are more financially independent than their mothers and grandmothers were. They have spent more time in the labor force than their forebears. Many have held highly paid jobs. As a result, many more women are eligible for their own Social Security and pension benefits than ever before. In addition, the Retirement Equity Act helps to ensure that married women will not unknowingly miss out on survivor benefits from pensions for which their husbands might be eligible.

Even so, women face financial challenges. For instance, intermittent work histories and part-time employment with few benefits have been the norm for millions of women who are now about to retire. Women have also generally earned less than men over their working lives.

The result is that women generally have lower savings accounts, Social Security benefits, pension benefits, and 401(k) accumulations than men. This has long-term implications, since the life expectancy for women is longer than that of men. It is compounded by the fact that women typically marry men older than themselves, so many spend more years alone in old age. Their retirement years frequently include spells of caring for a spouse and other older relatives as well.

Urgent: All women need to get a big picture understanding of their family finances, even those women who may not be directly involved with managing the money. This prepares them to handle not only everyday finances but also the future financial challenges of retirement.

Getting Legal Matters and Papers in Order

The decisions women face in retirement range from choosing the family and personal papers to keep in a safe place to deciding how to handle special needs and situations.

Paperwork gathering is especially critical when retirement is approaching. This includes knowing the location of all important papers (see the box) and letting adult children (or a key relative or friend) know about this location.

Women Take the Wheel: Destination Retirement

Essential Papers

for retirement or emergency

Keep these in a secure easy-to-access place:

- Birth certificate
- Marriage certificate
- Will
- Living will
- Durable power of attorney
- Health care power of attorney
- Health insurance cards, records
- Other insurance policies
- Pension, 401(k) plan documents
- Deed to the house
- Titles to cars, boats
- List of contacts—family, friends, doctors, etc.—and how to reach them
- Medical profile listing conditions, Rx.

For those who already have a will, this is a good time to update it. For those who do not yet have a will, now is the time to draft one.

Married women will want to make sure their husbands have a will and its location. This goes for the other key documents for both, including the living will and durable power of attorney for health care, which provide guidance on end-of-life preferences.

Ideally, married couples will make out wills and other essential documents together, know the location of documents, and know how one another intends to dispose of property. But for married couples that divide these responsibilities, good communication about the documents is still essential.

All beneficiary designations need to be kept up to date. Failure to update beneficiary designations may result in life insurance, defined contribution accounts or Individual Retirement Account (IRA) balances getting paid to the wrong individual.

Assets can be held in single or joint names, or in a trust. Jointly held property may be held with right of survivorship. Regardless of plan design, those who are signing the documents need to check to be sure that all designations are in accord with their stated wishes. And, since ownership designations may have important estate planning implications, it is very important to discuss the potential issues with an attorney and ensure that the designations are consistent with the will and trust documents.

Figuring Out How Much Retirement Will Cost

Women who are thinking about retiring will want to take a careful look at how much money they are likely to need in retirement and the possible sources of this money. It helps to be aware that, if they spend resources too fast, they may encounter serious financial problems later. That is especially so since women live longer than men on average, and most often outlive their husbands and a few will live beyond age 100. A financial planner can provide personalized assistance and advice. Online calculators are also available to help with retirement planning and with determining the variability of how long one expects to live.

Many retirement experts recommend that retirement income replace 70 percent to 80 percent of pre-retirement earnings to maintain pre-retirement living standards. That can work out well if the woman has moderate retirement savings, stable health care premiums and little change in consumption. Unexpected expenses or an active retirement could require a higher replacement rate.

Women Take the Wheel: Destination Retirement

Reality Check

Married couples reaching retirement will need about \$260,000 in savings on average to pay for out-of-pocket health care costs not covered by Medicare, excluding long-term care costs.

Source: Fidelity Benefits Consulting (2016)

Retirees also need supplemental health insurance plus a contingency fund to pay for health care costs not covered by primary insurance (typically Medicare). For married couples, retirement resources must last for the lives of both. For singles, estimate the need at about 75 percent of the need for a similarly situated married couple.

Unfortunately, few options exist for retired women who do not have an assured, adequate stream of income and health care insurance. One thing they can do is opt for a lower standard of living—for instance, by moving to a smaller home or less expensive community. They can also strive to stay healthy and thus avoid out-of-pocket health and long-term care costs.

Another option: Women can work longer. This has many advantages. Women will gain more time to save, may have higher earnings that replace lower earnings years in the Social Security benefit formula, and will need to finance fewer years of retirement. In addition, for each year they work between age 62 and age 70, they will receive higher monthly benefits from Social Security. This can make a big difference later in life when out-of-pocket health costs often soar.

Reviewing the Retirement Plan

Because women live longer than men and have, on average, lower Social Security and pension benefits, women will want to pay a good deal of attention to survivor benefits. Here are some factors to review.

- *Defined benefit (DB) plans.* Benefits from these plans are also called traditional pensions. DB plans typically pay out retirement benefits as monthly income but may also offer a lump-sum distribution option. A person may have a very good reason to opt for the lump-sum, such as diagnosis of terminal illness. But in many cases, taking a lump sum may be unwise because it removes a source of predictable income and places a money management burden on the retiree.

For married couples with DB plans, it's a good idea to consider taking a joint and survivor income if they want benefits to be paid to the survivor after the first spouse dies. Electing the joint and survivor option usually involves the married couple accepting a permanent reduction in the benefit otherwise payable; this reduction makes it possible for the DB plan to continue paying benefits to the surviving spouse. Since women tend to live longer than men, electing this option could make a big difference in a woman's income during her later years.

Women Take the Wheel: Destination Retirement

- *Defined contribution (DC) and IRA plans.* These plans allow workers to deposit money into various investment accounts, where the funds grow tax deferred. At retirement, plan participants can then opt to take the money out in periodic installment payments, purchase an annuity (which makes monthly payments to you only or to you and your spouse for life) or take a lump-sum distribution. It is important to verify what options are available, since many DC plans do not provide an annuity option and may not allow periodic installment payments. Retirees who have no source of monthly retirement income other than Social Security may want to consider the annuity option, at least for part of their money, if it is available. Those with additional sources of monthly income might benefit from either the annuity or installment payment option.

What Are Unisex Benefits?

This means that women and men who opt to take their DB benefits in monthly annuity payments will collect the same monthly benefit for the same age.

The decision about which payout option to take does not have to occur at the moment of retirement. Since lifetime annuities are irrevocable and have many different features, it pays to weigh this decision carefully.

- *The gender factor.* DB pension plan rates and benefits must be unisex. But annuities purchased outside of such plans from the private insurance market typically have prices that vary by gender, with women paying more than men because women live longer. This is an important consideration for married couples when deciding between taking a lump sum distribution option or an annuity.
- *The waiver factor.* Both a DB plan participant and his/her spouse must waive in writing the right to a joint and survivor benefit. The same holds true if a DC plan offers an annuity. Individual circumstances vary, but, in general, women should not waive this right unless they have sufficient income of their own to cover expenses until they die.

As discussed, wives often outlive their husbands. This becomes an important factor when the husband is the higher earner and has adequate income without a survivor benefit. In such cases, it may make sense for the husband to waive the survivor benefit from his wife's pension.

Starting Social Security

When is it best to start taking Social Security? This is one of the most important decisions women can make. Social Security accounts for half or more of the retirement income of nearly six in ten older women (aged 65 and older) in beneficiary families. For about one in seven older women, it is the only source of income (Social Security Administration, Income of the Population 55 or Older, 2014, Table 9B1).

Women Take the Wheel: Destination Retirement

Here is a general guideline: The later the start date, the larger the monthly benefit. However, women need to consider several other factors, too.

For instance, married women and divorced women who had been married for at least 10 years to a worker eligible for Social Security can be entitled to Social Security benefits in one of the three ways shown in the box.

Benefit Entitlement Paths

How women can become eligible for Social Security:

1. *As a retired worker:* This woman has accumulated sufficient credits to collect Social Security based on her own work record;
2. *As a spouse or survivor of an eligible worker.* A married or divorced woman ineligible for benefits in her own right can receive up to 50 percent of her husband's benefit if he is alive or 100 percent if he has died.
3. *As a dually-entitled beneficiary:* A woman who is entitled to her own benefit and one based on the work record of her higher-earning husband will receive the higher of the two benefits. This is essentially her benefit topped up by the difference between her benefit and her spouse/survivor benefit.

Men can qualify for benefits in the same way. But due to their generally higher career earnings, they rarely receive spouse or survivor benefits.

Married women may find that their own retired worker benefit is higher than a 50 percent spousal benefit. This is increasingly common as women spend more career years in the labor force. Once widowed, if the 100 percent survivor benefit is higher than their own benefit, they will receive the greater amount.

Important: Husbands who delay collecting Social Security until they are age 70 will ensure that their wives have the largest survivor benefit possible.

Assessing Divorce and Family Issues

Women face several retirement decisions that don't fit the broad categories above. The following are examples:

- *Family support:* Many older Americans provide help and support to adult children, grandchildren and other family members. The support can be one time in response to an emergency, periodically or ongoing. Emergencies may

Women Take the Wheel: Destination Retirement

include health problems, unemployment, and unexpected family needs. Ongoing support may include subsidies to divorced or underemployed children or payments for college. The idea has been put forth that many families include an individual who is like a “family bank.” Women need to take care that they do not use too much of their retirement resources supporting others, and leave themselves vulnerable.

The Role of the QDRO

A Qualified Domestic Relations Order (QDRO) is a court order. With this order, a divorced wife may obtain a share of the pension benefits from the plan of her ex-husband.

- *Divorce:* As noted, if married for at least 10 years, a divorced woman who has not remarried is eligible for Social Security spouse benefits and, if her ex-husband dies, survivor benefits based on her former husband’s earnings record. She will receive either her own retired worker benefit or the spouse or survivor benefit, whichever is higher.

Women who are in the process of divorcing can generally secure rights to pension benefits of the husband, but this is subject to negotiation. They need to understand their husband’s benefits and know which benefits have legal protections that apply to them.

Divorcing women will also want to make sure their lawyer has expertise with Qualified Domestic Relations Orders (QDROs). It is very important that a QDRO be written correctly; the format varies by state. Public employee benefits have different rules, but the benefits usually can be divided on divorce as well.

- *Women living with a partner:* Unmarried women living with a partner generally lack the same protections as spouses except in states that recognize common law marriages. Common law marriage requirements vary by state, but in all cases a couple needs to cohabit for a significant period of time and present itself as a married couple. The Social Security Administration recognizes common law marriage if the state in which the applicant resides recognizes common law marriages.

Cohabiting couples will benefit from working with a lawyer and financial advisor who can help ensure that the surviving partner inherits, retains, or acquires the rights to specified assets. Ideally, they will make these decisions well before retirement. This is true for both opposite sex and same sex couples.

- *Women in second (or subsequent) marriages:* Remarriage raises complicated financial planning decisions, especially when children and/or sub-

Women Take the Wheel: Destination Retirement

stantial assets are involved. Seeking the advice of a financial planner and tax advisor is a good idea. For retirement purposes, the partners will want to calculate anticipated sources of retirement income for each and then make decisions about joint and survivor benefits. At the very least, the partners will benefit by making sure that the beneficiaries named on any pension or retirement-savings plan are still appropriate.

Assessing Long-term Care

Long-term care insurance is a particularly important consideration for women, since it is common for women to live many years alone in old age. Some women have no family members available to help them, at least not on a regular basis. The insurance will help pay for their home and nursing care when they are frail, and it may provide access to care advisors who will offer guidance.

Women Take the Wheel: Destination Retirement

Additional Resources

For the website entries, please go to the website and enter the name of the article or author into the search box.

- The Actuarial Foundation and WISER, the Women’s Institute for a Secure Retirement, have two articles “Seven Life-Defining Financial Decisions” and “Making Your Money Last for a Lifetime: Why You Need to Know About Annuities” at www.actuarialfoundation.org.
- The New Love Deal: Everything You Must Know before Marrying, Moving In, or Moving On by Gemma Allen, Michele Lowrance, and Terry Savage, 2014. A book written by an attorney, judge and financial planner lays out financial planning issues for married couples.
- The Society of Actuaries and American Academy of Actuaries jointly developed a Longevity Illustrator. Find the calculator at <http://www.longevityillustrator.org/>
- The Social Security Administration has two articles, “What Every Woman Should Know” and “Widows, Widowers, and Other Survivors” at www.socialsecurity.gov.
- The U.S. Department of Labor has an article, “Facts About Qualified Domestic Relations Orders” at www.dol.gov/ebsa
- WISER, the Women’s Institute for a Secure Retirement, has an article, “Pensions and Divorce” at https://wiserwomen.org/index.php?id=473&page=Pensions_and_Divorce

The Society of Actuaries Post Retirement Needs and Risks committee has other Decision Briefs providing additional information on the major decisions encountered in retirement. All of the briefs can be located at: <https://www.soa.org/research-reports/2012/research-managing-retirement-decisions/>

The Society of Actuaries would like to acknowledge the work of its Committee on Post-Retirement Needs and Risks in producing this series.

The committee’s mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post retirement period. Individuals interested in learning more about the committee’s activities are encouraged to contact the Society of Actuaries at 847-706-3500 for more information. Additional information and research reports may be found at <http://www.soa.org>.

DISCLAIMER

This Decision Brief is not intended to provide advice for specific individual situations and should not be construed as doing so. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that the tax code can change, the taxation of products and strategies vary, and individual tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.



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