

SOCIETY OF ACTUARIES



## Women Take the Wheel: Destination Retirement

MANAGING RETIREMENT DECISIONS SERIES

**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. 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 spouses and other older relatives as well.

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

### Getting 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.

#### 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.

### 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) contracts
- 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.

### Reality Check

Couples reaching retirement will need about \$230,000 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 (March 2011)

Paperwork gathering is especially critical when retirement is approaching. Women should know the location of all important papers (see the box). They should also tell the location to their adult children (or key relative or friend).

If they already have a will, they should update it. If they do not have a will, now is the time to draft one.

A married woman should make sure her husband has a will and know its location. But ideally, married couples will make out wills together, and each spouse will know how the other intends to dispose of property. Both should also have a living will and durable power of attorney for health care, which are documents providing guidance on end-of-life preferences.

### Figuring Out How Much Retirement Will Cost

Women who are thinking about retiring should take a careful look at how much money they are likely to need in retirement and the possible sources of this money. They should be aware that, if they spend resources too fast, they may encounter serious financial problems later on. 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 can help as well.

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.

Retirees also need supplemental health insurance plus a contingency fund to pay for health care costs not covered by primary insurance (typically Medicare). For 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 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 should pay a good deal of attention to survivor benefits. Here are some factors to review.

- *Defined benefit (DB) pensions.* These are also called traditional pensions. They typically pay out retirement benefits as monthly income. DB plans 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.

Married couples with DB plans should consider taking a joint and survivor income if they want benefits to be paid to the survivor after the first spouse dies. Since women tend to live longer than men, electing this option could make a big difference in a woman's later years.

#### What Are Unisex Benefits?

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

- *Defined contribution (DC) plans.* These plans allow workers to deposit money into various investment accounts, where it grows tax deferred. An example is a 401(k) plan. At retirement, retirees can opt to take the money out via an immediate lifetime annuity (which makes monthly payment to the retiree for life) or take a lump-sum distribution. Those having no source of monthly retirement income other than Social Security may want to consider the annuity option, at least for part of their money. Those with additional sources of monthly income might benefit from either option.

### 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.

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

- *The sex 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 sex, with women paying more than men because women live longer. Couples should keep this in mind when deciding between taking a DB lump sum 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 should one 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 10 older women (aged 65+) in beneficiary families. For about one in six older women, it is the only source of income (Social Security Administration, Income of the Population Aged 55 or Older, 2008, Table 9B1).

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.

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.

### The Role of the QDRO

A 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.

## Assessing Divorce and Other Special Situations

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

- *Divorce:* As noted, if married for at least 10 years, a divorced woman 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 should also 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 should work with a lawyer and financial advisor to ensure that the surviving partner inherits, retains, or acquires the rights to specified assets. They should make these decisions well before retirement.

- *Women in second (or subsequent) marriages:* Remarriage raises complicated financial planning decisions, especially when children and/or substantial assets are involved. Seeking the advice of a financial planner and tax advisor is a good idea. For retirement purposes, the partners should calculate anticipated sources of retirement income for each and then make decisions about joint and survivor benefits. At the very least, the partners should make sure that the beneficiaries named on any pension or retirement-savings plan are still appropriate.
- *Long-term care insurance.* This 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.

The road to retirement can be a bumpy one for women. Fortunately, many resources are available to provide guidance on the decisions that lie ahead. Check out the list on the next page.

## More Insights

*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, Seven Life-Defining Financial Decisions, Washington, DC: WISER and Schaumburg, IL: The Actuarial Foundation at [www.actuarialfoundation.org](http://www.actuarialfoundation.org).
- The Actuarial Foundation and WISER, the Women's Institute for a Secure Retirement, Making Your Money Last for a Lifetime: Why You Need to Know about Annuities, Washington, DC: WISER and Schaumburg, IL: The Actuarial Foundation at <http://www.actuarialfoundation.org>.
- Rappaport, Anna M, Living to 100: A Woman's Issue, Paper presented at the Society of Actuaries Living to 100 at <http://www.soa.org>.
- Social Security Administration, What Every Woman Should Know at [www.socialsecurity.gov](http://www.socialsecurity.gov).
- Widows, Widowers, and Other Survivors, at <http://www.ssa.gov>.
- U.S. Department of Labor, Facts about Qualified Domestic Relations Orders at [www.dol.gov/ebsa](http://www.dol.gov/ebsa).



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>.



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