Women and Retirement

How will I provide for myself when I no longer work?

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We often dream about what it will look like when we retire, but not enough of us are creating a practical reality for our vision. Studies show Americans are not saving enough for retirement: among households age 55 and older, about 29 percent have neither retirement savings nor a DB [pension] plan[1], while one in five[2] are not saving anything at all. Combine this with the fact we cannot solve for how many years we will live and most people adopt a strategy of hope versus a formal plan.

A particularly troubling concern is a lingering gender disparity. A recent survey by Prudential[3] reported the following statistics: 54% of women are primary breadwinners, but men on average were 1.4 times more likely to say they are on track to meet their financial goals (on average, 50% of men vs. 38% of women). Only 54% of women have put aside money for retirement ($115,412 average) compared to 61% of men ($202,859 average). When asked about their financial future, 52% of women said they were very worried compared to 42% of men.

Honest and actionable wealth management is for everyone. It applies to your current state of living as well as what you want for your future. It's for men and women alike, single, married, divorced or widowed. Think of wealth management as your ticket to greater choice and flexibility as you age, allowing you to better determine how long you work, how much you work and what kind of lifestyle you'll enjoy when you choose to stop working.

WHY WOMEN ARE BEING UNDERSERVED

There is a growing desire among Americans to retire early, even as the data is stacked against them. Thanks to the rising costs of living, coupled with a longer lifespan, experts warn those entering the workforce now should not plan to retire before 70[4].

One challenge that arises for women in retirement planning is the number of years they are in the workforce. A recent report[5] estimated that women only work 75% of the years that men work- 29 years vs 38 years for men. They take time off to have children, which reduces their work life by 5.5 years vs .5 years for men, and take time off for caring for parents, which reduces their work life by 1.2 years versus .6 years for men. These gaps can negatively affect the amount women contribute to retirement plans and, therefore, their ability to accumulate wealth. This fact alone makes it immediately obvious that women need to save a higher percentage of their salary while they are working.

To add to rising costs, Americans are generally living longer (Exhibit A), making longevity a key consideration in wealth management, both pre- and post-retirement. A recent survey showed 58% of Americans believe $1 million will be enough for retirement[6], however, that answer doesn't take into consideration how long a person will live or what kind of lifestyle they hope to have. As difficult as those questions are to answer, women face even more complex issues and concerns.

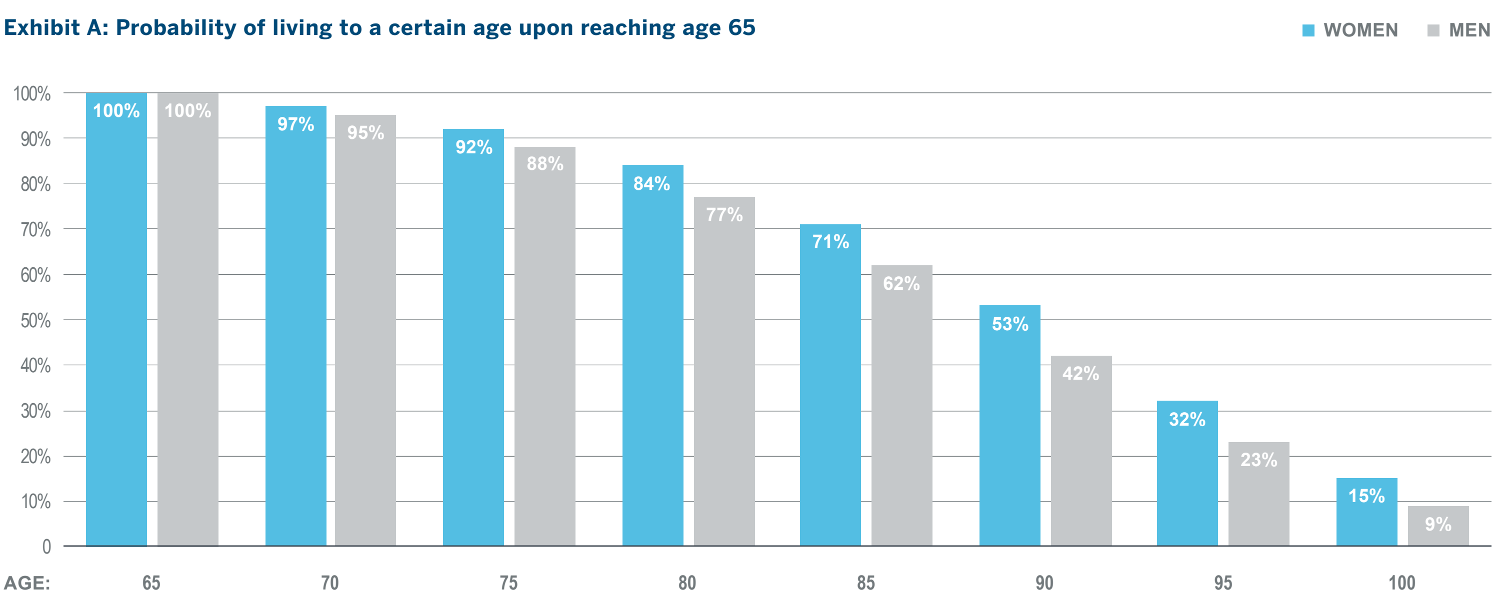
Most obvious, women tend to live longer than men, which gives them a greater number of retirement years to consider. They also tend to make less money[7] than men do over their lifetime, which leads to lower savings and investments and, consequently, lower returns.

While women typically control the household finances, interestingly they also frequently leave retirement and wealth planning to their husbands or male partners. This creates a knowledge gap, even as women gain strength in financial independence. Sallie Krawcheck, co-founder and CEO of the female-focused digital financial advisor Ellevest, told CNBC Make It, "[Women] certainly don't invest as much as men do. We tend to leave more than 70% of our wealth in cash as opposed to investing it. For the typical professional woman, that can cost her hundreds of thousands — for some women, millions — of dollars over the course of their lives, creating a bigger drain on their net worth than the gender pay gap."

Financial illiteracy or stagnancy manifests in different ways. For example, following the death of a spouse or a loved one, people sometimes rush into home ownership without considering ancillary costs beyond the down payment and monthly mortgage. Women can be particularly effected after what is known as a "gray" divorce (age 50+) that can see their average standard of living decline by 45% versus 21% for men[8].

Other times, a lack of financial knowledge and sudden financial responsibility causes paralyzing fear, leading women to hoard assets and worry they will not have enough to get by. This attitude is equally as debilitating, causing undue stress and worry.

Exhibit A: Probability of living to a certain age upon reaching age 65



Source: American Academy of Actuaries and Society of Actuaries Longevity Illustrator www.longevityillustrator.org. Assumes current age of 40, retirement age of 65, non-smoker, and average health.

Lack of financial action and know-how aside, the definition of financial freedom can mean different things depending on your life's goals or age. For example, younger women typically equate financial freedom with greater experiences such as travel, and prefer to delay or even forego homeownership in favor of greater mobility. Older women who find themselves facing the loss of a life partner may view financial freedom as the comforting knowledge they have enough to get by for the rest of their life, however long that may be.

While there is no one size fits all solution, the reality is that women are at the apex of a gender financial revolution, one where they hold the majority of wealth in the world and the control to do with it what makes the most sense for them. Overcoming the obstacles of financial illiteracy or inaction is critical in creating a secure financial future.

THE FEMALE OPPORTUNITY

For certified financial planners, wealth managers, consultants and financial advisors, women represent a powerful market ripe with opportunity. The Family Wealth Advisors Council[9] reports that an estimated $25 trillion will accrue to women through 2030 via generational and spousal transfers. By then, at least two-thirds of the nation's wealth will be in women's hands. Women also make up 40% of all Americans with gross investable assets above $600,000 and 48% of the country's millionaires.

What these numbers do not reflect, however, is a general dissatisfaction among women with the financial industry. Recent data from New York Life[10] shows 40% of women feel they are treated differently by financial professionals than their male counterparts, and 26% say they have less access to financial education than they should. A whopping 67% of women change their financial advisor, citing poor service and lack of a personal connection.

As the customer mindset changes, so should the customer experience, and never is this more apparent than with women and wealth management. Financial advisors have a fantastic opportunity to build lasting and loyal relationships with their female clientele, helping to meet their unique retirement needs in ways that feel personal, thoughtful and, ultimately, successful.

The good news is that women tend to be better investors when they take an active interest in picking stocks[11] and they also trend toward greater loyalty with advisors who understand and meet their unique needs. This goes beyond simply considering retirement, but also requires advisors to think outside the box, as women often manage the financial responsibility of more than just themselves. This includes parent and childcare, healthcare and greater risk assessment against longevity and other factors.

Women and men both utilize financial advisors, but women utilize the advice they receive to a greater degree, according to

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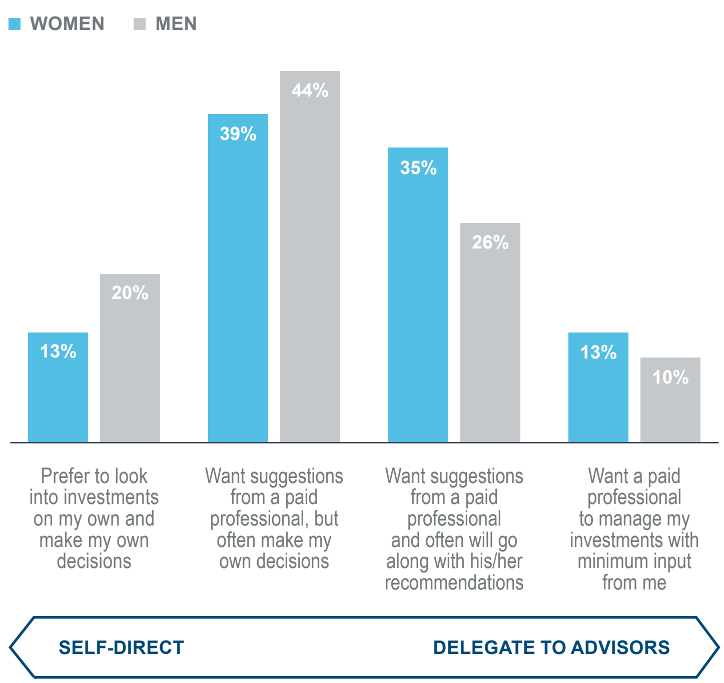
LIMRA. Exhibit B shows 48% of female investors want a paid professional to either suggest and/or manage their finances versus just 36% of men. This delegation and compliance can also have other positive effects. Consider the 2017 study by The Warwick Business School[12] (UK) that showed women outperformed men by 1.8%. Researchers identified the following factors contributing to the outperformance: women chose less speculative stocks, had a more long-term perspective, and traded less frequently. Author Jean Chatzky notes: "It's not exactly a big surprise that women mature earlier than men do. As a result, they tend to display better judgment, particularly when it comes to money".

Exhibit B: Percent of women and men clients



Source: The Road Ahead: Building Female Client Relationships to Last, LIMRA Secure Retirement Institute, 2017. The findings are based on 824 women and 952 men currently working with financial professionals to make at least some of their household financial investment decisions.

Women also take a more holistic approach when considering their financial life. Given that many women- married, single, or widowed- facing retirement are also caring for children and parents, seeing how all of the pieces of their financial life fit together bodes well for planning based advisors. Unlike men, women view achieving their personal goals as more important than investment performance[13] and place a very high priority on communication and being understood. They want their advisor to spend significant time and effort upfront to fully understand their entire life, not just their financial picture.

Another area of focus unique for women is planning for their long-term care needs. According to Milliman's 2017 Long-Term Care Guidelines[14] women are about 10% more likely to trigger long-term care insurance benefits than men. Moreover, women's length of long-term care claims were over 50% longer than men's in an assisted living or nursing home facilities, and over 30% longer when receiving care in their home. The results varied by age, with females under age 75 entering an assisted living facility expecting to stay under care for 60% longer than males (Exhibit C).

Six out of ten women over age 65 are single, divorced or widowed, so helping women understand the ways to plan for this phase of life becomes critical. The challenge is even greater for those that live the longest: the 2010 Census[15] counted 53,364 people age 100 and older in the United States, and they were overwhelmingly female. For every 100 centenarian women, there were only 20.7 centenarian men.

MILLIMAN'S APPROACH TO WEALTH MANAGEMENT

Milliman's mission is to help our clients protect the health and financial well-being of people everywhere. This includes helping people answer the question, "How will I provide for myself when I no longer work?"Our new retirement era has two aspects never before seen: a majority of savers without pensions, combined with historically low interest rates on bonds. This is a huge risk for Americans.

To help determine retirement readiness, Milliman designed a simple way to translate sophisticated inputs—investment risk, inflation risk, longevity risk, vitality risk, liquidity risk—into an easy to understand number called The RISE Score™ "Retirement Income Security Evaluation" (Exhibit D). Think of it like a credit score for retirement. RISE provides an estimated measure of income security to help determine whether you are

Exhibit D: The RISE Score™

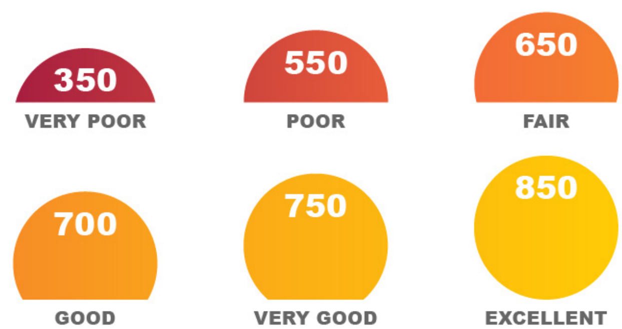
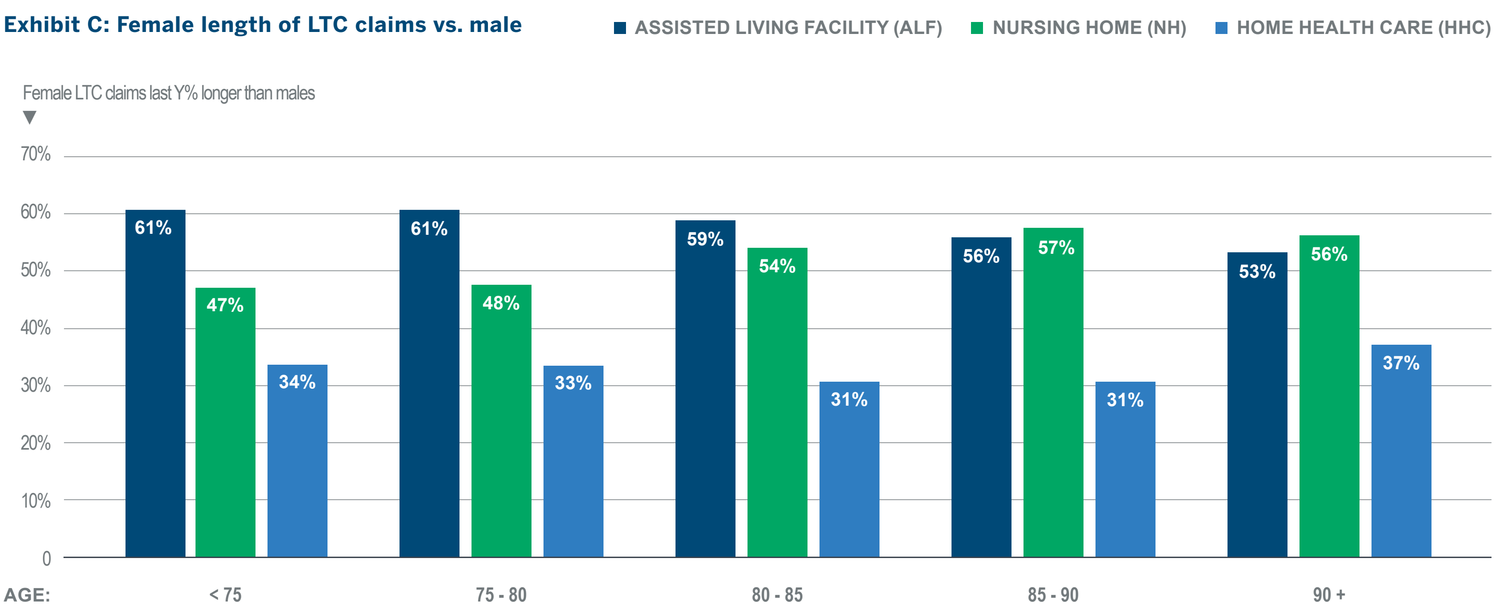


Exhibit C: Female length of LTC claims vs. male



Source: Milliman's Long-Term Care Guidelines

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on track with your current retirement income plans and can help you assess how well your retirement portfolio will cover basic living expenses and healthcare costs in retirement. According to a recent study by the Alliance for Lifetime Income, only 28%[16] of people had calculated the amount of money needed each month to cover expenses in retirement.

According to the Society of Actuaries, a woman's life expectancy is between two and four years longer than a man's life expectancy[17]. One area where this can make a difference in retirement is in medical and drug costs. In Exhibit E, we compare a female and male in a similar situation except that the female lives three years longer. The Retiree Health Cost Planner shows that the woman would spend just over 25% more than the man over the course of their retirement on Medicare Advantage Prescription Drug plan (MAPD) premiums and out of pocket medical and drug expenses based on nationwide averages. The projected MAPD premiums and out of pocket health costs for a male and female in retirement are $417,000 and $531,000, respectively. Women in same sex marriages will be even more affected by these additional costs.

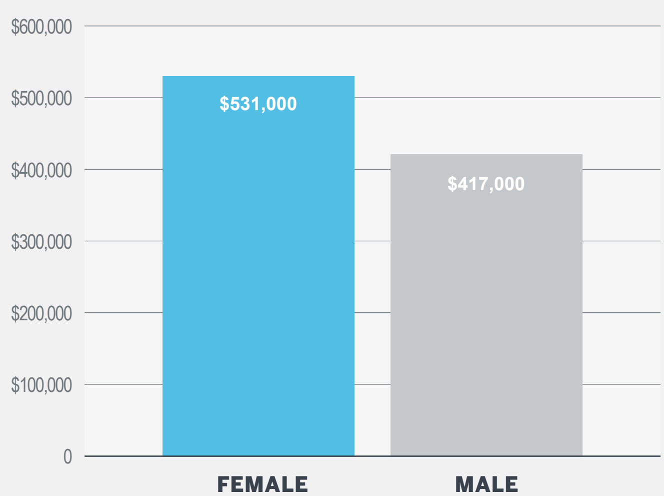
CONCLUSION

Women face unique obstacles in securing the necessary roadmap for retirement, but there is reason to be optimistic that, through innovative technology and an industry aware of women's purchasing power, more resources are becoming available to help them chart their financial futures. Gerontologist, Kelly Ferrin, notes "If we were to look at a 100-year lifespan, think about how that changes the perception of aging and how we'd perhaps think about the entire life spectrum rather than just one specific phase of life. I've always believed that this new longevity provides an entirely new way to rethink all of our life phases ... and ultimately, how to best plan and prepare for all of them."

There are four basic questions to answer (Exhibit F) when planning for a phase in life without earned income. Women and their advisors should work together to find alternatives to the limited traditional choices: a shorter retirement period with higher disposable income or a longer retirement period with less disposable income.

Now, more than ever, women need to be asking this question for themselves, their partners and their families.

Exhibit E: Projected lifetime medical and drug costs



	FEMALE	MALE
Current age	40	40
Retirement age	65	65
Health	Average	Average
Medicare plan	MAPD	MAPD
Annual Trend	4.9%	4.9%
Lifespan	87	84

Source: Retiree Heath Cost Planner.

Exhibit F

Getting Ready for Retirement

1. What sources of income are you confident you will receive?
2. How much income will these sources provide each year?
3. How and when will the income be paid?
4. How will you coordinate payments from different sources to create a steady stream of income so there is money for as long as you need it?

Source: Smart Management of Retirement Income (March 2014). FINRA (2014). https://www.finra.org/sites/default/files/InvestorDocument/p394529.pdf

FOOTNOTES

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