Insured Retirement Institute

Women and Retirement

Overcoming Retirement Incomes Challenges Facing Women

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About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: our members are the major insurers, asset managers, broker dealers and more than 150,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and to advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit www.IRIonline.org today to experience the vast resources of the Insured Retirement Institute for yourself.

Overview

During 2012, the first Baby Boomers started reaching their Social Security retirement age of 66, beginning a retirement boom involving an estimated 79 million individuals between now and 2031. When planning for retirement, it is important, however, to realize that there is no one-size-fits-all solution. One key area is that retirement planning for women is not the same as retirement planning for men, as women face unique challenges as a result of the culmination of years of substantially lower pay and a life expectancy that is several years longer.

This report builds on previous Insured Retirement Institute (IRI) research, *Women, Retirement, and Advisors: Concerns About Meeting Retirement Expectations, Female Boomers Seek Expert Advice*. In this publication, we provide an overview of the retirement income challenges facing the female population and examine the roles of various types of retirement income solutions.

Key Findings and Analysis

- Women have made tremendous strides financially, controlling 27% of investable assets worldwide. In households where both spouses work, the percentage of women who earn more than their husbands have increased from 18% in 1987 to 29% in 2009.
- Retirement income planning for women, however, is complicated by the need to fund a longer retirement on a lower working income.
- Income disparities over time can have significant implications on the amount women are able to save for retirement. After 30 years, this translates into a 25% to 30% shortfall compared to that of a male worker with the same savings and investing pattern.
- A compounding factor to the income disparity between men and women is family care giving. The estimate of care givers who are female ranges from 59% to 75%. Family care giving presents women with opportunity costs: 33% of working women decreased their hours; 29% passed up a promotion, training, or assignment; 20% switched to part-time work; and 16% quit their job.
- Estimates from 2011 show, during her retirement years, a 65-year-old woman can expect health costs, including premiums, to be 13% higher than those of a man.
- IRI research shows, in 2012, 34% of Baby Boomer women state they did not know when they plan on retiring—presenting an education opportunity for advisors on retirement planning.
- IRI research shows that older women are more confident they are prepared for retirement financially than younger women, yet only four in ten women who are at least 55 years old believe they have done a good job in planning financially for their retirement years. And, one-quarter of women have little to no confidence in the way they have planned so far.
- Insured retirement solutions, such as annuities, can help women manage their long-term income and principal protection needs—two aspects that women value in a retirement income investment.
- Through planning with a financial advisor, women can take steps to increase their optimism and financial outlook for funding their retirement years. Yet nearly 53% of Baby Boomer women reported that they have not consulted a financial advisor.
- IRI research shows, in 2012, Baby Boomer women identified the following traits as most important to them when selecting a retirement financial product; guaranteed income each month (18%), recommended by a financial advisor (17%) and rate of return (15%).

I. Women and Retirement Overview

Women continue to make great strides financially. Roughly half of working women are employed in management or professional occupations and one-quarter earn more than their husbands. However, years of substantially lower pay than men and a life expectancy that is several years longer have combined to make retirement planning a challenge for many. It comes as no surprise, therefore, that many women do not believe they are adequately prepared for retirement.

<u>Women's Retirement Preparedness</u>

The need to fund a longer retirement with fewer financial resources is of concern for many women. Research conducted by IRI shows that older women are more confident they are prepared for retirement financially than younger women, yet only four in ten women who are at least 55 years old believe they have done a good job in planning financially for their retirement years. And, one-quarter of women have little to no confidence in the way they have planned so far.

Exhibit 1: Women's level of confidence that they are doing a good job of preparing financially for retirement, 2011 - 2012

Age Group	Extremely or Very Confident	Somewhat Confident	Not Confident/Don't Know
35-44	33%	43%	25%
45-49	33%	42%	24%
50-54	36%	42%	22%
55-59	43%	35%	23%
60-66	43%	34%	23%

Source: Insured Retirement Institute.

Yet, through planning and a combination of financial products, women can take steps that will increase their optimism, as well as their financial outlook, for funding their retirement years.

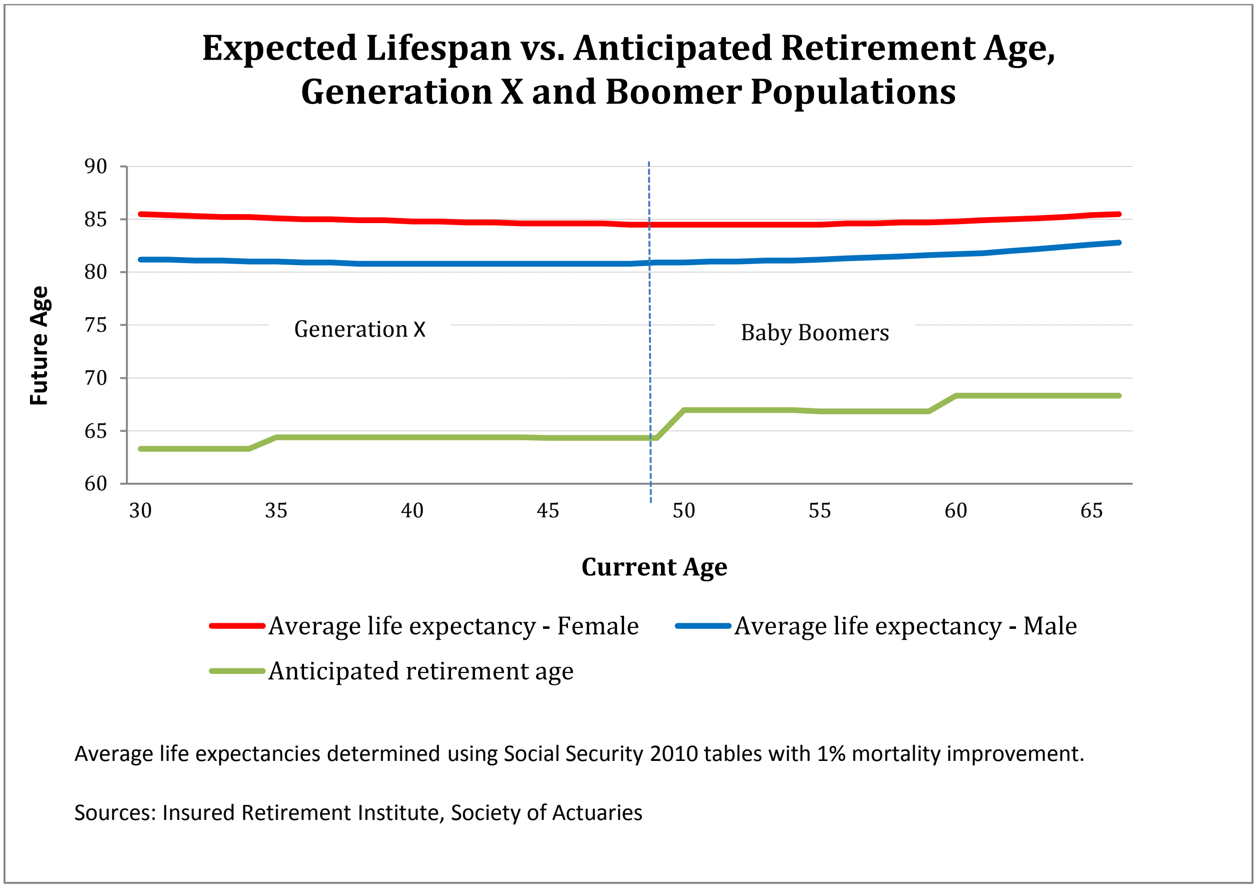
<u>Challenges in Retirement Planning for Women</u>

An early step in planning for retirement is to examine the challenges women face compared to their male counterparts. These include a longer life expectancy, higher health and long-term care costs, and the implications of relatively lower wages earned during their working years.

Longevity

Women, on average, live longer than men, resulting in the need for a more sizeable nest egg to cover their future expenses. It is well-known that women have, on average, greater longevity than men—the Society of Actuaries estimates this to be about three to four years.

Exhibit 2: Expected Lifespan vs. Anticipated Retirement Age, Generation X and Boomer Populations



Health Care Costs

Women also need to consider the high costs of health care when planning for their retirement years. This is due to a combination of two key factors—living to an older age, and the rapidly rising cost of health care. As such, women need to set aside considerably more savings for this component of retirement than their male counterparts and more than early generations. Many women, however, have expressed concern about meeting these expenses in the future.

- Health care expenses per capita increased by 6.14% in the twelve-month period ending April 2012, outpacing that of inflation. (Source: Standard & Poor's, *S&P Healthcare Economic Composite Index*)
- Projected lifetime medical expenses in 2011, including premiums, for a female earning less than $85,000 per year starting at age 65 are $417,550, a figure that is 13% higher than that for a 65-year old male. (Sources: Insured Retirement Institute and HealthView Services)
- Only one-third (33%) of female Boomers, in 2012 are very or extremely confident that they will have enough money to take care of their medical expenses during retirement, compared to 41% of men. (Source: Insured Retirement Institute)

Long-Term Care

Just as increased longevity impacts medical expenses, women also need to address the costs of long-term care. This includes coverage for nursing homes, assisted living centers, and home-based care.

- Women are at greater risk for requiring long-term care. Nearly 71% of nursing home residents were women in 2004. (Source: U.S. Centers for Disease Control and Prevention, *National Nursing Home Survey*)
- Nearly one-quarter of female Boomers (23%), in 2012, are very or extremely confident that they will have enough money to cover their own long-term care expenses in retirement. And 43% have little to no confidence, compared to 35% of men. (Source: Insured Retirement Institute)
- As caretakers for family members, women also need to consider the expenses of those they hope to assist in the future. In 2012, more than one-third (35%) of Boomer women have little to no confidence that they will be able to support the long-term care expenses of their parents. (Source: Insured Retirement Institute)

One option for women to mitigate the risks of longevity, health care, and long-term care is to work longer. Working longer should be considered as a component of an overall retirement strategy. Working longer provides financial advantages such as more time to accumulate savings, reduces the amount of time a woman will need to live off her savings, and longer access to employee benefits to help reach retirement savings goals such as to cover medical and long-term care expenses. Research shows that women are working longer. IRI research shows, in 2012, 43% of Boomer women anticipate retiring at age 65 or later. Research from the Employee Benefit Research Institute (EBRI) shows the labor force participation rates for women ages 55 over increased from 24% in 1996 to 35% in 2011, and among women age 65 and over the labor force participation rate increased from 9% in 1996 to 14% in 2011 (EBRI, *Labor Force Participation Rates of the Population Age 55 and Older, 2011: After the Economic Downturn*). Retirement is not a one-off event but a transition into a new phase of life. A financial advisor can help in creating an individualized roadmap for retirement that includes determining an appropriate retirement age.

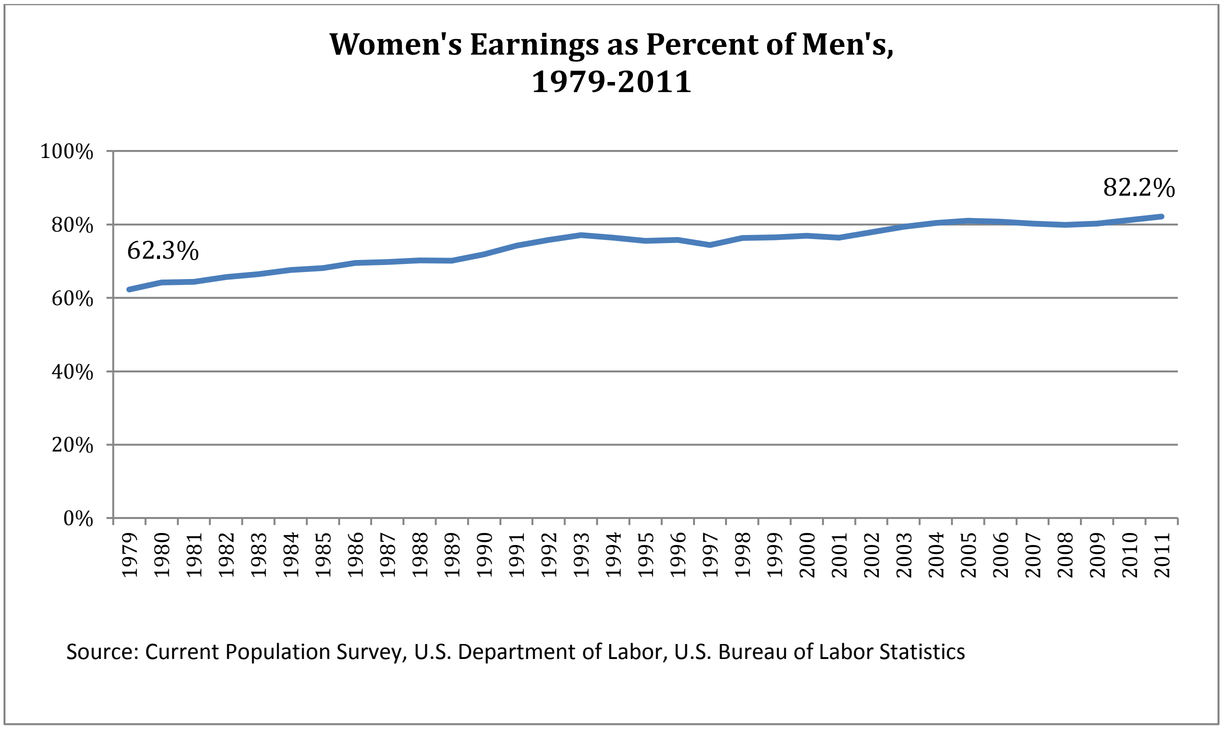
Income Disparities

On average, women earn about 80 cents for every dollar earned by men—a figure that has held fairly steady for the past five years. Even so, it is considerably higher than 62 cents on the dollar of 30 years ago (Exhibit 3). Compounding this income disparity is the fact that women are more likely than men to be a family caregiver, an estimate of the percentage of family or informal caregivers who are female range from 59% to 75%. If a woman leaves the labor force to provide care, she will lose that time to contribute to a retirement saving plan and misses earned credits in a defend benefit pension plan and Social Security. Despite the strides made in closing the pay gap, long-term differences in income have negative impacts on the pensions and retirement savings of female workers.

- While half of male Boomers have retirement savings of at least $200,000, only 35% of female Boomers have amassed this level. Approximately 30% of male Boomers have saved between $50,000 and $200,000, compared to 44% of female Boomers. (Source: Insured Retirement Institute)
- One national study on women and care giving highlighted the conflicting demands of work and care giving. Among the findings were: 33% of working women decreased their hours; 29% passed up a promotion, training, or assignment; 20% switched to part-time work; and 16% quit their job. (Source: Family Caregiver Alliance, *Who Are the Caregivers?*)

- Lost wages due to care giving negatively impacts a woman's retirement income through, reduced Social Security and defined benefit plan benefit payments and lower contributions to a defined contribution plan.
- According to an ING study, women have saved significantly less than men. A woman's retirement savings is 64% of a man's at ages 25-34 and only 78% at ages 65-69, heading into retirement. (ING: *What About Women (and Retirement)?)*

Exhibit 3: Women's Earnings as Percent of Men's, 1979-2011



Today, however, women have a significant opportunity to catch up on their retirement savings.

- Women controlled 27% of investable assets globally in 2009, a level that is projected to grow 8% over the next five years. (Source: The Boston Consulting Group, *Leveling the Playing Field: Upgrading the Wealth Management Experience for Women*)
- In 2011, one-half of working women are employed in management or professional occupations, 24% are chief executives. (Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings*)
- In households where both spouses work, of the percentage of women who earn more than their husbands have increased from 18% in 1987 to 29% in 2009. (Source: U.S. Bureau of Labor Statistics, *Women in the Labor Force: A Databook, 2011 Edition*)

Women need to do more than catch up, however, as longer lifespan and higher expenses call for an even higher level of savings.

II. Sources of Income in Retirement

Conventional retirement planning utilizes a so-called "three-legged stool" that represents the three key sources of retirement income: Social Security, employer-sponsored retirement plans, and personal savings. During the past few years, the portion representing personal savings has taken on greater importance as a smaller number of employers provide traditional pension plans to retired workers and with the increase prevalence of lump-sum distributions from employment-based plans upon job changes.

Social Security

According to a 2012 IRI survey of Baby Boomers, 44% of female Boomers expect Social Security to provide a major source of their income in retirement, compared to 39% of men. Yet, due to several factors, such as lower lifetime earnings and longer life expectancies, benefits paid to women are smaller. According to the Social Security Administration, the average monthly benefit paid to a retired female worker in December 2010 was $1,022.90, versus $1,323.10 for a retired male worker, a difference of 23%. Even though benefits are paid to women for a longer period of time, on average, these differences need to be considered when working with an advisor to develop a retirement income plan.

Under current law, the full Social Security retirement age for Baby Boomers is 66 to age 67. According to the Social Security Administration, if a Baby Boomer woman retired at age 65 she would experience a benefit reduction of 6.7% to 13.3%. Full retirement ages and benefit reductions at ages 62 (earliest Social Security retirement age) and 65 are shown below.

Exhibit 4: Full Retirement Age and Reduction for Benefits Starting at Age 62 or Age 65

Birth Year	Full Retirement Age	Amount Benefit is Reduced if Retirement Begins at Age 62	Amount Benefit is Reduced if Retirement Begins at Age 65
1937 or earlier	65 years, 0 months	20.0%	0%
1938	65 years, 2 months	20.8%	1.1%
1939	65 years, 4 months	21.7%	2.2%
1940	65 years, 6 months	22.5%	3.3%
1941	65 years, 8 months	23.3%	4.4%
1942	65 years, 10 months	24.2%	5.6%
1943-1954	66 years, 0 months	25.0%	6.7%
1955	66 years, 2 months	25.8%	7.8%
1956	66 years, 4 months	26.7%	8.9%
1957	66 years, 6 months	27.5%	10.0%
1958	66 years, 8 months	28.3%	11.1%
1959	66 years, 10 months	29.2%	12.2%
1960 or later	67 years, 0 months	30.0%	13.3%

Source: Social Security Administration

Employer-Sponsored Retirement Plans

Employment-based retirement plans are a major vehicle for accumulating assets for retirement. There are two basic types of employment-based plans: a defined benefit (or traditional) pension plan and a defined contribution plan such as a 401(k) plan.

A defined benefit pension is an employer-funded plan in which the employer assumes the investment risk. Upon retirement most defined benefit plans pay an annuity benefit for rest of the beneficiary's life. According to a 2012 IRI survey of Baby Boomers, 38% of female Boomers expect defined benefit pension plans to provide a major source of their income in retirement. However, this expectation does not match with reality. Consider that in 2010, 17% of women age 65 or older received income from a private-sector defined benefit plan and 11% received income from a public-sector defined benefit plan. (Source: EBRI, *Databook on Employee Benefits*). The decline in the number of private-sector defined benefit plans is well documented. The continuing tough economic conditions are putting pressures on public-sector employers to make modifications to existing pension plans. With fewer employers offering a defined benefit plan, this is not likely to be a major source of income for many future retired women.

A defined contribution plan is a retirement savings vehicle in which both the employer and employee make contributions, but the employee is responsible for the investment risk. Upon retirement the employee chooses how to receive the accumulated assets as either a lump-sum distribution, annuity payment, or partial distribution. According to a 2012 IRI survey of Baby Boomers, 42% of Boomer women expect defined contribution plans to provide a major source of their income in retirement. Yet, women need to be aware of the following trends.

- The average defined contribution account balance, in 2011, for a woman was $59,104 compared with $94,063 for a man. (Source: Vanguard: *How America Saves, 2012*)
- "Leakage" from the employment-based system is common in the form of lump-sum distributions upon job changes. In 2006 among recipients of a lump-sum distribution, only 44% of recipients in their 30s and 55% in their 50s rolled over the entire distribution into a tax qualified savings vehicle. (Source: Employee Benefit Research Institute, *Lump-Sum Distributions at Job Change*)

With the opportunity of lump-sum distributions throughout a woman's career some of the assets accumulated in the employment-based defined contribution system are rolled over into other savings vehicles. We, therefore, turn to the third leg of retirement income—personal savings.

<u>Personal Retirement Savings</u>
The majority of personal savings for retirement comes from lump-sum distributions from employer-sponsored plans. According to the Bureau of Labor Statistics, National Longitudinal Survey of Youth 1979, the average number of jobs held by women born from 1957 to 1964 is 10.7 as of 2008. Each of these job changes provides advisors with an education opportunity on the need to preserve the assets accumulated for retirement. Some points for advisors to consider:

- According to the BLS most of the job changes occur early in a woman's career. For example, the average number of jobs held by women age 23-27 was 3.1 compared to 2.0 among women ages 39-44.
- Preserving that lump-sum distribution at a young age has a very big impact on total retirement savings. A person who saves $100/month from age 20 to 30 assuming an 8% return would have $174,928 by age 60. A person who saves $100/month from age 30 to 60 assuming an 8% rate of return would have $135,940 by age 60.
- Because of their present tax status, annuities arean attractive option to rollover a lump-sum distribution to preserve the assets for a steady stream of income in retirement.

III. Insured Products That Can Help Women Address Retirement Challenges

IRI research has shown that women value protection of principal and guaranteed income for life when investing for their retirement (IRI, *Women and Retirement, From Need to Opportunity: Engaging This Growing and Powerful Investor Segment*). Recent research from Franklin Templeton shows the top three retirement concerns for women are: market volatility (71%), outliving their assets (67%), and healthcare expenses (58%) (Franklin Templeton Investments, *Retirement Income Strategies and Expectations (RISE) Survey Summary*). Given these concerns, women will need solutions that will ensure that they will be able to make the assets they have accumulated throughout their working careers last throughout their retirement years. By providing a steady stream of income for the rest of an individual's life, annuities offer retirement income to help defray the cost of health care, financial security during uncertain economic times, and longevity protection.

High market volatility and guaranty lifetime income are two concerns that are interrelated. High market volatility presents serious challenges of when and how much to withdraw from savings. Recent market volatility, especially since the financial crisis of 2008, has had a profound impact on individuals' attitudes towards retirement income and security. According to a 2011 study by IRI and Alliance Bernstein, the market crisis of 2008 opened many clients' and advisors' eyes to the benefits of variable annuities (VAs). Fifty percent of surveyed advisors stated they started recommending VAs more because their clients are demanding "guaranteed investments." The guarantee of a predictable source of income to meet at least basic expense can help retirees manage difficult times without major adjustments to their retirement plan.

Longevity is a risk especially important to women. As noted above, outliving their assets is one of the top three concerns for women in retirement. IRI research shows in 2012, when asked what is the one most important trait of a retirement investment product, 18% of women stated guaranteed income each month, 17% state recommended by my advisor, and 15% stated rate of return. Annuities provide that guaranty of a lifetime income throughout retirement years.

While annuity products offer an important tool to women to help them manage retirement risks, IRI is not recommending that they put all of their accumulated assets into an annuity. A woman should consider annuities as a part of her overall retirement income strategy to help ensure she has adequate income throughout her retirement.

IV. CONCLUSION

The women's market is vast and diverse, yet there are some overarching challenges that all women face. As noted in this report, when it comes to planning for retirement, women are most concerned about financial volatility, making sure their assets last throughout their retirement years and health care costs. These concerns show women are aware of their greater longevity than men and the need to save more for a longer life and health care costs. Factor into these concerns, women still earn less than men and a woman is more likely than a man to adjust her career goals to meet the challenges of family care giving. How can a woman meet all of these challenges?

Women do have options to help meet these challenges. An excellent place to start is working with a financial advisor. A financial advisor can provide a roadmap to retirement tailored to a woman's particular circumstances. The advisor can help her stay focused on those goals throughout her working career so that she is able to balance retirement needs with all of the other demands on her finances.

Among the many financial products available today, annuities offer some attractive features. The present tax status of annuities provides an attractive destination for a lump-sum distribution from another tax-qualified plan. Annuities are the only financial product providing a guaranteed steady stream of income throughout a woman's retirement years. As noted above, this guaranty is of great importance to women.

Any woman can achieve her retirement dreams. It involves knowing what that dream will look like and working with a financial advisor to develop an appropriate mix of financial products to reach that goal.

V. METHODOLOGY

The data in this report is derived from both proprietary and secondary sources. The Insured Retirement Institute commissioned Woefel Research, Inc. to conduct a survey of Boomers approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with adult Americans age 50-66. Preliminary results are based on a sample of 503 individuals are presented. The sample was selected from a list of households in this age group, developed by Accudata, Inc. by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data was collected during February and March 2012.

Supporting data was derived from publicly available research from financial services companies (including: Boston Consulting Group, Franklin Templeton Investments, ING, and Vanguard) various government sources (Bureau of Labor Statistics, Census Bureau, and Social Security Administration) and other organizations (Employee Benefit Research Institute and Society of Actuaries).