NAVIGATING THE RETIREMENT GENDER GAP

Challenges Women Face in Preparing for Retirement

CLICK HERE TO INSERT LOGO

Retirement planning is critical to financial stability and security, yet it often presents a unique set of challenges for women. Despite progress in gender equality, women still encounter significant disparities in income, employment opportunities, and social expectations that can impact their ability to prepare adequately for retirement. Before exploring potential strategies to mitigate these obstacles, let's first uncover the distinctive challenges most frequently encountered by women.

Lifetime Lower Earnings

In looking at jobs across all professions, women, on average, earn 84 cents for every dollar paid to men.[1] Many factors may play into this, such as pressure for women to balance family and professional expectations and career interruptions, which will be discussed later. The wage disparity directly affects women's ability to save for retirement, as a lower income translates into smaller contributions to retirement accounts such as 401(k)s or IRAs. Over a lifetime, the cumulative effect of lower lifetime earnings can result in dollars lost, lower Social Security income benefits, and significantly diminished retirement savings for women. As of the most recent SSA Statistical Supplement (2023), the average retirement benefit for women was $1,638; for men, it was $2,020.[2]

Longer Life Expectancy

Women typically live longer than men, requiring more significant retirement savings to support themselves throughout their extended lifespan. According to the Social Security Administration's life expectancy calculator, a male born in April 2024 can expect to live to 82.4, while a female can expect to live five years longer.[3] While increased life expectancy is undoubtedly a positive development, it poses a financial challenge for women, who may have to stretch their retirement savings over an extended post-retirement period, often as a widow.

Consequently, women risk outliving their savings and experiencing financial insecurity in their later years.

Career Interruptions

Women often experience career interruptions due to caregiving responsibilities, including raising children or caring for aging parents. Often referred to as the "sandwich generation," these career breaks can disrupt a woman's earning and savings potential by reducing working hours and/or eligibility for workplace retirement plans. As a result of juggling workplace and family caregiving responsibilities, women may face greater challenges in accumulating adequate retirement savings. Fortunately, recent changes made under SECURE 1.0 acknowledge the challenge of part-time workers to save for retirement by allowing long-time part-time employees with 500 or more hours who work in three consecutive years to participate in 401(k) or similar plans.[4] SECURE 2.0 further reduced the number of consecutive years of 500 hours to two years.[5]

Lagging Financial Literacy

Financial literacy is essential for effective retirement planning, yet studies indicate that women often exhibit lower levels of financial literacy than men. The 2023 TIAA Institute – GFLEC Personal Finance Index found that 53% of men and 43% of women correctly answered index questions designed to measure financial literacy.[6] This disparity in financial knowledge can hinder a woman's decision-making about retirement savings, investment strategies, and effective claiming for Social Security benefits. Without a solid understanding of financial principles, women may struggle to navigate the complexities of retirement planning and risk making suboptimal choices unless they have the assistance of a reputable financial professional.

Divorce and Widowhood

Divorce and widowhood can have significant implications for women's retirement security. Divorced women may

experience a decline in household income, including social security income and assets, making it challenging to rebuild their retirement savings post-divorce. Similarly, widowed women may find themselves suddenly responsible for managing finances alone, potentially facing financial hardship if they were not actively involved in financial decision-making during their marriage. These events underscore the importance of proactive retirement planning and asset protection measures for women.

Healthcare Costs and Long-Term Care

Women tend to incur higher healthcare costs in retirement due to longer life expectancies and greater healthcare needs. For example, according to Fidelity's Retiree Health Care Cost Estimator, a 55-year-old woman today planning to retire at age 65 who expects to live to age 87 should plan to save $171,647 for health care in retirement; the projected costs assume coverage in Original Medicare and considers costs not covered by Medicare such as deductibles and coinsurance.[7] Additionally, women are more likely to require long-term care services as they age, further increasing their healthcare expenses. Without adequate planning and insurance coverage, healthcare costs can rapidly deplete women's retirement savings, jeopardizing their financial security later in life.

Preparing for the Future Starts Now

Despite the challenges women tend to face more than their male counterparts, let's explore some proactive steps to better secure your financial future and enjoy a comfortable retirement.

Start Early

It is crucial to start saving and investing for retirement as early as possible. This holds particularly true for women, given their longer life expectancy and the compounding effect of investing over time. By starting early, you can take advantage of the

power of compounding, allowing your savings to grow exponentially over the years until retirement.

Educate Yourself

Financial literacy is critical to effective retirement planning. You should take the time to educate yourself about various investment options, opportunities to save via your workplace plan, a traditional or Roth IRA, an annuity, or life insurance, and strategies for building and protecting wealth. This knowledge will help you make informed decisions about your finances and maximize your savings potential.

Save Consistently

Not just saving but consistent saving is essential for building a robust retirement nest egg. You should strive to save a portion of your income regularly, whether through employer-sponsored retirement plans like 401(k)s or individual retirement accounts (IRAs). Automatic contributions can make saving easier by deducting a set amount from each paycheck and funneling it into retirement accounts. If you work part-time, check with your employer to determine if you meet the eligibility criteria to participate in the plan; otherwise, consider funding an IRA.

Take Advantage of Employer Benefits

Many employers offer retirement benefits, such as matching contributions to retirement plans. You should take full advantage of these benefits to maximize your savings potential. For example, if your employer offers a matching contribution of 50% up to 6% of pay, contributing at least 6% means you will receive an additional 3% of employer contributions for free! You should explore other workplace savings opportunities, such as health savings accounts (HSAs), which are only available in conjunction with a high-deductible healthcare plan.[8] As previously mentioned, planning for healthcare costs in retirement above Medicare-

covered costs, as well as the potential for long-term care costs, is important, so contributing to a health savings account during your working years and allowing it to grow for use tax-free on qualified medical expenses in retirement is a good idea.

Carefully Evaluate Social Security Claiming Options

Understanding how Social Security benefits work is crucial for retirement planning. For example, your future income benefits are calculated using your highest 35 years of Social Security-taxed earnings, indexed to inflation. If you lack 35 total years, zeros are substituted for the missing years, causing your monthly benefit to be lower.[9] Therefore, the more years you work, even part-time, could significantly impact your lifetime Social Security income. You might also be eligible for spousal, ex-spousal, or survivor benefits based on your spouse's or even a former spouse's earnings. The timing of your claim is often a critical component to the sustainability of cashflow in retirement. Seeking help from a financial professional specializing in retirement income and Social Security planning is a prudent decision, particularly since the Social Security Administration cannot offer advice on how and when to claim benefits.

Prepare for Out-of-Pocket Healthcare and Potential Long-Term Care Expenses

As mentioned, healthcare expenses can be a significant financial burden in retirement, especially as you age. You should factor in and plan for healthcare costs not covered by Medicare when projecting future expenditures and how much you need to save to be adequately prepared for retirement. And, while no one likes to think it will happen to them, in 2023, one study revealed that 70% of adults aged 65 and older will require long-term care at some point in their lives.[10] There is often a misconception that Medicare covers the cost of long-term care, referred to as "custodian

care," when, in fact, it does not. Supplemental Insurance Policies (referred to as Medigap) also do not cover the cost of long-term care.[11] Therefore, planning early and considering purchasing long-term care insurance to protect against potential expenses is important. Some life insurance companies offer hybrid policies or accelerated death benefits that may offer more affordable options than standalone LTC insurance.

Don't Put All Your Eggs in One Basket

Often, we think of financial diversification in terms of reducing risk and maximizing returns in investment portfolios. While this is a good strategy during the accumulation phase, you must also consider choosing savings vehicles that reduce the risk of high tax exposure and market fluctuations during retirement. For example, contributing to a traditional 401(k) for 20 years produces a tax deduction when you make the contributions; however, those never-taxed contributions, plus the growth will be taxed at some future income tax rate during your retirement years. On the other hand, contributing to a Roth 401(k) offers no upfront tax deduction on contributions as they are made but permits tax-free withdrawals, even on never-taxed growth in retirement.[12] Beyond the tax treatment of your various sources of retirement savings, your focus should shift away from how much you have accumulated to how much income you can generate from that amount, with downside protection. For most, Social Security is the foundation of guaranteed income in retirement. Do you have other sources of guaranteed income in retirement to at least cover your basic living expenses? Speak to a financial professional and a tax professional to help you build a tax-efficient retirement income strategy long before you retire.

Continuously Review and Adjust

Retirement planning is not a one-time event but an ongoing process requiring regular review and adjustment. You should periodically assess your

financial situation, investment performance, and retirement goals to ensure that you are on track to meet your objectives. Adjustments may be necessary due to changes you may encounter in your life.

Seek Professional Guidance

The road to financial empowerment starts with taking the first step. Educate yourself and challenge yourself to evaluate your current financial situation and the steps you can and are willing to take to a fulfilling retirement. Working with a knowledgeable financial professional specializing in retirement income planning can help ease the burden and help you better organize the steps necessary to create a sustainable plan. The 2023 Allianz Women Power Money Study found that 77% of the women surveyed say their financial professional is their 'go-to' source for information and that having one makes them "feel better prepared for their financial future."[13] Interview multiple financial and tax advisors until you find a team committed to providing personalized, unbiased advice tailored to your needs, challenges, and goals. Hopefully, you will build a long-term trusted partnership as a result.

Female Empowerment and the "Great Wealth Transfer"

Our challenges as women have led to a gender wealth gap. However, according to the Ellevest 2024 Women and Wealth Survey, the "Great Wealth Transfer" stands to improve the existing disparity in wealth between men and women. According to the study, women are projected to inherit and manage at least $30 trillion dollars by 2030, more than the national GDP.[14] The transition is driven by the Baby Boomer generation, known for accumulating substantial wealth that is expected to predominantly transfer to women, given their longer life expectancy than men. This ongoing transfer of wealth is projected to persist over the next two decades and is closely linked to the rising confidence among women in managing their finances. The survey findings

revealed that receiving a financial windfall significantly boosts female confidence in financial management, soaring from 45% to 81%. Interestingly, the study highlights a notable correlation: the lack of confidence in discussing money stems from a scarcity of wealth rather than the reverse. Impressively, 77% of surveyed women expressed comfort in discussing financial matters within their families. Regardless of whether you anticipate a transfer of wealth, advocate for yourself through ongoing learning and aligning with trusted partners in pursuit of your financial and retirement goals.

[1]https://www.forbes.com/advisor/business/gender-pay-gap-statistics

[2]https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2023/fast_facts23.html

[3]https://www.ssa.gov/oact/population/longevity.html

[4]H.R. 1865 SECURE 1.0 Division O: Section 112

[5]H.R. 2617SECURE 2.0 Division T: Section 114

[6]https://www.tiaa.org/public/institute/publication/2023/financial-well-being-and-literacy-in-a-high-inflation-environmen

[7]https://communications.fidelity.com/wi/tools/retirement-health-care

[8]IRS Publication 969: Health Savings Accounts and Other Tax-Favored Health Plans (2023) p.3

[9]https://www.ssa.gov/myaccount/assets/materials/additional-work.pdf

[10]https://www.aplaceformom.com/senior-living-data/articles/long-term-care-statistics

[11]https://www.medicare.gov/coverage/long-term-care

[12]IRS Publication 560 (2023) Retirement Plans for Small Businesses: Tax Treatment of Distributions p.28

[13]https://www.allianzlife.com/about/newsroom/2024-Press-Releases/Women-Taking-On-More-Financial-Responsibility

[14]https://www.ellevest.com/magazine/investing/great-wealth-transfer