



Empowering Women To Wealth

Addressing the specific financial challenges women face on their road to retirement means that financial advisors need a much more customized approach than the traditional planning strategies to provide women with the service and engagement they require.

Freedom America Retirement Services realizes that the female clients we serve want to know more than just how their portfolios are doing, how much money they need to retire and how to protect their finances from sudden market losses.

These are, indeed, important topics and we can help you address the many risks you face in retirement when it comes to longevity, taxation and your investments. We also realize that women may be seeking different answers.

These are generalizations, but studies and research into what women are looking for in terms of managing their wealth show that they tend to focus on risk and value wealth preservation seven times more than they value upside gains. So we meet our clients' risk tolerance where they are and develop a plan based on their specific goals and objectives.

Our comprehensive financial planning process also makes room for a goals-based approach. Traditional metrics like portfolio returns and how our investments are doing against the market are important to know. But we feel strongly that it is also important to work with goal-oriented women on their desires to send their children and grandchildren to college, afford their homes and pay off their mortgages, retire well and plan for their legacy.

Financial Challenges Women Face

Women face different risks on the road to retirement than men, due to a variety of factors. These can include lower pay, time away from the workforce for parenting or caregiving, and longer life expectancies.

In terms of their retirement security, the gender pay gap persists, with women who work full-time earning about 80.5% of what men do, according to the Institute for Women's Policy Research.¹

In dollars and cents this means that women exposed to the gender pay gap receive less Social Security benefits compared to men, since benefits are calculated based on earnings and work history. Data released in 2018 by the Social Security Administration showed that, in 2016, the average annual Social Security income received by women 65 years and older was \$13,891, compared to \$17,663 for men.²

Women also have a higher probability of being single and depending on one income, which can also negatively impact their financial retirement readiness. According to data published in 2019 by the Employee Benefit Research Institute (EBRI), the average retirement savings shortfall for women aged 60-64 was \$62,127 for single females compared to \$24,905 for single males.³

These factors play a role in how confident women are in their retirement readiness. According to the Transamerica Center for Retirement Studies® (TCRS),

only 12% of women are “very confident” in their ability to fully retire with a comfortable lifestyle, compared to 24% of men. Nearly half of women (46%) are “not too confident” or “not at all confident” compared to only 31% of men who share those sentiments. (2017 data from a nationally represented sample of 6,372 workers, 3,917 of which comprised women.) ⁴

Competing priorities also affect how confident women believe themselves to be in their ability to fully retire. Paying off debt is a financial priority for almost seven in ten women (68%), including those paying off credit card debt (46%), mortgage debt (30%), student loans (18%), and/or other consumer debt (16%). Fifty-eight percent of women cite building savings as a financial priority compared to only 51% who cite saving for retirement. Four in ten women (41%) cite “just getting by – covering basic living expenses” as a priority.

A sound retirement plan includes accounts that provide for liquidity. Establishing an emergency fund along the road to and in retirement is an important

step to offset unexpected financial woes, including unemployment, medical bills, auto repairs or home repairs. Your plan should also include a way to provide you with guaranteed income, while tax-deferred and tax-advantaged retirement accounts like an employer-sponsored plan, IRA or Roth IRA are all important pieces of the retirement funding triangle.

Yet, here again, some women face difficulties. Women have saved a median \$2,000 in emergency savings compared to \$10,000 for men. While fewer women than men have dipped into a 401(k), IRA or similar retirement account for a loan or withdrawal, this form of “leakage” can negatively impact the growth of long-term retirement savings, according to TCRS. It’s prudent, then, to save for your important investment goals, while being able to thrive financially through uncertainty with an emergency fund.



Optimizing Social Security

Among the biggest risk that women face on the path to achieving a financially sound and independent retirement is whether Social Security will be enough to support their lifestyle as well as how to maximize their benefits.

It’s clear that Social Security plays a key role in a woman’s retirement income plan. Social Security represented 45% of total income for unmarried women – including widows – age 65 and older, compared to only 33% for unmarried elderly men, and only 28% of elderly couples’ income. ²

There are many factors to determining when you should claim Social Security benefits. Different claiming strategies as well as delaying when you file for benefits could help you get more each month than if you filed early as soon as you become eligible at age 62.

There’s a big bonus to delaying your claim — your

benefit will gradually grow by up to 8% a year up until age 70. Any cost-of-living adjustments will be included, too, so you don’t forgo those by waiting.

A simple shift from claiming your own benefits until age 66 and then switching to claiming a higher survivor benefit, for example, could result in as much as a 20% increase in monthly benefits and a 10% increase in lifetime benefits, according to Fidelity.

The key takeaway is not to assume you know what benefit strategy will work the best for your circumstances. Freedom America Retirement Services has special software that can run scenarios using your unique financial income and retirement needs to determine how to optimize your benefits.

Longevity and Living on Their Own

Women tend to live longer than men. Actuaries at the Social Security Administration estimated in 2016 that women age 65 are expected to live, on average, another 21.6 years compared to 19.1 years for men. Women also represent about 65% of Social Security beneficiaries age 85 and older.

Widows also make up one-third of women 65 and older. In addition, they outnumber widowers by 3 to 1, according to a profile of older Americans published in 2017 by the U.S. Department of Health and Human Services.

Investment Risk

Studies show that women tend to invest more conservatively than men, which could make it harder to reach their financial goals in retirement if they aren't accumulating the assets they need to experience the retirement lifestyle they want.

Data from a study of more than 1,000 respondents published in 2017 by BMO Wealth Management found that the percentage of women and men who indicated a preference for investments that rely on the expertise of professionals, such as managed investment portfolios, was about equal. Yet, women tended to be more conservative with other investment choices with 16% selecting CDs and money market securities, compared to 12% of men. Women were also less likely to invest in stocks than men (19% vs. 25%).⁵

A comprehensive approach to investment management can help you diversify your assets in a way that is in accord with your time horizon and risk profile, so that your assets provide you with income and growth, while minimizing volatility. It's also important in retirement to be mindful that your portfolio is protected from the risks of negative returns in the early years of retirement. Known as sequence of returns risk, portfolios that experience a few bad years early on tend to be completely depleted than those that have experienced strong returns in the early years.

Women Control Increasing Wallet Share

- Women control 51%, or \$14 trillion, of personal wealth in the U.S. and are expected to control \$22 trillion by 2020.
- They are the primary breadwinners in more than 40% of American households, a four-fold increase since 1960.
- Women now hold the majority (52%) of management, professional and related positions in the U.S.
- And they also own 30% of all private businesses, employing more than 7.8 million Americans.

Source: BMO Wealth Institute, Financial concerns of women. March 2015. <https://www.bmo.com/privatebank/pdf/Q1-2015-Wealth-Institute-Report-Financial-Concerns-of-Women.pdf>

Inflation Risk & Tax Risk

Purchasing power tends to erode over time. With that comes the risk that the money you have today will be worth less than it will over a 10-, 20-, or even 30-year period in which you might be living on a fixed income during your retirement. Throw in the fact that recent changes to the tax code that went into effect in 2019 may have led to more favorable tax brackets for more individuals and married couples. Yet, more than 20 provisions that became part of the tax code may expire for taxpayers in 2025, potentially leading to higher taxes you will have to pay in the future.

These two risks make it important that we work with you to build into your financial plan annual adjustments so you can rely on the same amount of income and purchasing power throughout your retirement. It is also part of our process that we incorporate tax-efficient strategies within your retirement plan and periodically review how taxes may impact your monthly income now and in the future.

Health Care Risk

Health care is a big piece of the financial planning puzzle in retirement, but it doesn't have to be. Financial strategies and insurance solutions can help you pay for expenses that aren't covered by Medicare and protect you from unexpected medical costs that may arise from a disability, chronic illness or the ability to perform daily activities.

Consider that annual costs for long-term care services can range from \$48,000 for assisted living facilities to \$50,336 for home health aide care and nearly \$89,300 for a semi-private room in a nursing home, according to 2018 figures from Genworth Financial's annual Cost of Care Survey.⁶

While you may be healthy now, what would happen if you suddenly weren't able to perform the routine activities of daily living? How would you pay for it? This is why it's important to factor in health care costs as a percentage of your retirement expenses.

Sources:

- 1: <https://iwpr.org/publications/gender-wage-gap-2016-earnings-differences-gender-race-ethnicity/>
- 2: <https://www.ssa.gov/news/press/factsheets/women-alt.pdf>
- 3: <https://www.ebri.org/content/retirement-savings-shortfalls-evidence-from-ebri-s-2019-retirement-security-projection-model>
- 4: https://www.transamericacenter.org/docs/default-source/women-and-retirement/tcrs2018_sr_women_take_control_of_retirement.pdf
- 5: https://wealth.bmo.com/media/resource_pdf/20171030_BW_reportinvestmentbiasUS_WM_E03.pdf
- 6: <http://newsroom.genworth.com/2018-10-16-Genworths-15th-Annual-Cost-of-Care-Survey-Shows-Continuing-Rise-in-Long-Term-Care-Costs>



PRESSURES OF CAREGIVING

66% — Estimated percentage of women who are caregivers

34% — take care of two or more people

Female caregivers less likely than males to have made alternative work arrangements:

- Taking a less demanding job (16% females vs. 6% males)
- Giving up work entirely (12% vs. 3%)
- Losing job related benefits (7% vs. 3%)

Costs due to caregiving are higher for women:

- They lose an estimated \$324,044 compared to \$283,716 for men
- \$142,693 — Lost wages for leaving the work force early
- \$131,351 — Estimated lost Social Security benefits
- \$50,000 — Estimated lost pension benefits

Source: BMO Wealth Institute, Financial concerns of women. March 2015.
<https://www.bmo.com/privatebank/pdf/Q1-2015-Wealth-Institute-Report-Financial-Concerns-of-Women.pdf>



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