Baby Boomer Women:
Secure Futures or Not?

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Baby Boomer Women: Secure Futures or Not? is a *pro bono* public service publication whose mission is to develop and implement national policies that will ensure a dignified, sustainable quality of life for our nation's aging baby boomer women.

"Out-of-Paycheck" Retirement Programs: Will They Crack the Nest Egg for Baby Boomer Women?

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Let's begin our discussion of women's greater need for financial planning by asking a simple question: Will female boomers in the workforce today really fare better during retirement than their mothers' generation? The answer is mixed: The two-thirds of working women who earn less than $50,000 annually will face obstacles that require advance planning; even then for many of those earners, retirement may not turn out well.

One problem is the facade that good financial news lies ahead for the next generation of older women. This is buoyed by the media's image of women surging into the medical and law professions and transforming their lives from the traditional stay-at-home model. Policymakers and the public generally misunderstand the circumstances of ordinary women and the implications of living and paying for longer lives.

Generally, it is not understood that working women still face the same problematic factors as previous generations even with increased workforce participation. These factors include women earning less than men, women working without retirement plans,

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and women working part-time or leaving the workforce for family caregiving responsibilities, resulting in lost opportunities for wages and savings. There are also more never-married women in the boomer generation than ever before—a factor that portends a financially difficult old age, as most older women who are alone end up living in poverty.

The women who are likely to be winners are the 10 percent of the female workforce who have high earnings and paid benefits. Women with old-fashioned, guaranteed pension programs and health benefits will stand the best chance of having a retirement more secure than the preceding generation. These women will have access to the historic benchmark of success, the three-legged retirement stool—optimally receiving Social Security benefits, a paid pension, and a sufficient salary to save what is needed. Statistics show that as income rises so do investment holdings. However, as a nation, we should be concerned for the rest of the female workforce—those who are unlikely to fare as well because they have no pension coverage, and they are not able to save the large sums that will be needed to support them for decades.

Falling in Love with the 401(k)

So why are these same old retirement challenges impacting women with full careers? Haven't women come a long way? A step back in time to the 1980s shows that at the same time women increased their participation as full-time workers, another burgeoning trend—a societal trend toward individual responsibility for retirement—was taking place. During that decade, policy-makers who wanted to increase the nation's savings rate allowed a change in a federal tax regulation that turned the virtually unknown 401(k) savings plan into an option for employers who wanted to escape the increased complexity and costs of traditional pension plans.

The original concept for 401(k) savings plans was envisioned by Congress as a supplement to traditional pensions. It was a way for workers to have tax-advantaged savings accounts available at the workplace, making it easier for them to address personal savings—the third leg of the retirement stool. But few envisioned the transformation the 401(k) savings plan would have on the private pension system or that it would contribute to the demise of the traditional pension plan. Both employers and employees fell in love with 401(k)s—employers because they were not only cheaper to administer but they allowed for a more modern partnership between the employer and employee. For example, if an employee wanted to have a retirement plan for the future, then she should be willing to contribute to that plan and perhaps receive an employer match of a certain percent of her salary. The benefits to employers were that they could offer a plan if they hadn't previously had one; costs were miniscule compared with traditional plans; and the burden of investing the money was removed. For employees the benefits included the opportunity to save for the future, invest their own money, and have ultimate control. But remember there were supposed to be three legs to the retirement stool, and now workers were paying for two legs—the plan at work and the individual savings leg.

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This trend toward 401(k) savings plans had an enormous effect on women. Women were slower to sign up for these plans, less likely to work in the jobs where they were offered, and more likely to take the money out when they left a job and spend it on children or debt reduction. These decisions leave women without a nest egg to draw from—a serious problem as women's longevity requires a monthly stream of income for the rest of one's life. That is what our old-fashioned pension and Social Security systems do best: Both programs were designed to provide retirees with a regular paycheck for life. The trend toward newer and more "employer-friendly" solutions like the 401(k) make Social Security the backbone of women's retirement income. The problem is, Social Security was designed to provide only a "bare minimum of protection." That so many women rely solely on Social Security for support is among the major reasons so many of them are poor.

"Out-of-Paycheck": Out of Luck?

The switch to retirement savings plans added a new "out-of-paycheck" responsibility not just for retirement benefits but because it came at a time when the costs for health care were being shifted to employees. Rapidly increasing health costs are a burden for many, but the trend toward individual responsibility for retirement savings is more of a financial problem for women in particular. This trend is not likely to be reversed, and regardless of what some advocates and policy experts say about the merits, women need to accept this new reality and learn how to plan accordingly.

The first step of financial planning for women begins with the fact that women need to plan for a longer retirement with more income. Women are the majority of the oldest old (those who are age 85 and older), and that number is expected to double or triple over the next 40 years. They need to be aggressive about planning. The evidence shows clearly that women need to be better prepared for the future, or they will live out their lives in a precarious position—impoverished and without the resources to meet basic living expenses and health-care needs. Living longer carries a likelihood of several risk factors: outliving income, inflation, divorce and widowhood, poor health, and a greater chance of institutionalization. Yet statistics show that compared with men, women begin their retirement years with less income and savings: For women age 65 and older, the annual median income is only 58 percent of what men in the same age group have, while their median monthly asset income is $112.

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The key then to meeting these challenges is for women to take control of their financial well-being at the earliest possible age. It is essential that women begin saving when they are young and learn to invest and manage their savings. They need to understand that they will have to guarantee their own income and assets to last throughout their retirement years. The financial irony is that women's lower lifetime earnings undermines their ability to amass the very assets needed to pay for a retirement that can weather the risks of longevity.

What Women Can Do

So what actions will lead women toward a secure financial future? Women obviously need to take advantage of employer-sponsored defined contribution savings plans such as 401(k)s, 403(b)s, and 457 plans. It is also important that women learn the rules to make sure that they do not miss out on their employers' matching funds, and that they preserve their income for their retirement.

Younger women should also consider a home purchase and set up individual retirement accounts to help them save as much and as early as possible.

Money invested early in life pays huge dividends through a lifetime of compound interest. It is very difficult to make up for lost time if women wait until middle age to start investing, but it is never too late to start to plan. Many financial experts suggest that in order to maintain a current lifestyle for 20–30 years of retirement you should replace about 85 percent of pre-retirement income. The Washington, D.C.-based Women's Institute for a Secure Retirement (WISER) tells women to plan on 100 percent of pre-retirement income, to help weather the bumps and pitfalls that can put them in a precarious financial situation. Becoming aware of the risks and planning for the possibilities will help to avoid falling short of funds when women most need them.

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Women need to learn the basics. It may seem obvious but they need to take the time to list all expected sources of retirement income by using their Social Security statement as an annual reminder. Comparing what they have from their retirement income sources with what they are earning today will help to determine how much they need to be saving to fill the gap. They also need to learn how to invest so they can make sure that inflation will not erode the value of their savings. A survey conducted for WISER by the Heinz Family Philanthropies in April 2005 found that most women—both early and late boomers—underestimated the amount of savings they would need by nearly half, and more than a third had less than $50,000 saved, about one-fifth of what the average woman will need.

Forestalling a Shortfall

There are ways to prevent an income shortfall. One option is to delay retirement as long as possible or at least until the normal retirement age to ensure that benefits are not reduced. One mistake that is made is taking Social Security benefits early, causing a permanent reduction in benefits from 20 percent to 25 percent depending on your age. A recent report by the

Congressional Budget Office makes the case that working a few years longer and saving more income has several important advantages. First, it shortens the number of years in retirement and, therefore, the total amount needed. Second, it allows savings that are already invested to continue to grow and gain in value. Finally, waiting to collect Social Security benefits not only increases the benefit amount but it can have a big impact if the worker is earning substantially more than in previous years. For example, if they wait to collect until age 70, they will increase their normal benefits to 132 percent. If women are worried or behind schedule in saving for retirement, the answer is to increase savings and try to work a few years longer, if possible. The delayed retirement credit from Social Security pays an annual increase of 8 percent for those working beyond the full retirement age.

The fate of boomer women could be worse than their predecessors', as this generation spends more, acquires more debt, and is less likely to have traditional pensions, spousal benefits, or retiree health-care coverage.

The other crucial issue that is a neglected area of financial planning is a woman's greater need for health-care savings, supplemental insurance, and a plan for paying for long-term care. Rising health-care costs, particularly for prescription drugs, will take a larger bite out of retirement income than most future retirees recognize. More dramatically, women's longevity will likely mean that they will need expensive long-term care services. A study by the Employee Benefit Research Institute shows an income shortfall when there is a need to cover expenses associated with care in a nursing home or the need for home health care. A recent EBRI study estimates a need for a sum ranging from a base of $160,000 to pay for the Medigap premiums and other medical expenses in retirement.

Predictions about what the future holds for women retiring later in the 21st century are difficult to make, but it is sobering to realize that the elderly women living in poverty now are among a generation that were less likely to divorce and more likely to save and acquire less debt than today's boomer generation. Today's older women were also more likely to be recipients of spousal and retiree health benefits from traditional pensions. The fate of boomer women could, therefore, be worse than their predecessors', as this generation spends more, acquires more debt, and is less likely to have traditional pensions, spousal benefits, or retiree health-care coverage.

There is little likelihood of changes in the factors that challenge women's ability to accumulate retirement income. Moreover, the outcome of the current national discussion about Social Security could have major implications for women's future security, as would the likely cutbacks in the Medicare program. These changes will have a staggering effect on income. For women with limited work histories, and especially for those who have always lived on the margins, the retirement picture looks particularly bleak. A great deal needs to be done to educate women about the need to save more and to understand that financial decisions made over a lifetime have a big impact on how one lives during retirement.