

Baby Boomer Women: Secure Futures or Not?

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Retiring by 65: Pipe Dream for Older Boomer Women?

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Older baby boomer women on the cusp of change went to work in larger numbers than their mothers or grandmothers. Although they are now well represented as business owners, have job tenure roughly equal to men,¹ and are gaining an ever-increasing presence in the corner office and in Congress, they still earn less as a group than many men. As a result, a substantial segment face daunting savings challenges as they approach retirement age, particularly those who are single. This article will review findings from recent work at the Employee Benefit Research Institute (EBRI) looking at the retirement security prospects for older boomer women if they choose to leave the workforce at 65 instead of working longer.

First, perspective on this issue is helpful. From 2020 to 2030, when older boomer women will be 64 to 74, America's elderly are projected to face an income shortfall of at least \$400 billion—including at least \$45 billion in 2030 alone—just in their ability to cover basic living expenses and any expense associated with an episode of care in a nursing home or from a home health-care provider, which is usually substantially below their pre-retirement standard of living.² This shortfall is the difference between the amount required for the elderly to afford expenditures for the

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remainder of their life and the income and benefits they are actually projected to have (a combination of Social Security, Medicare, Medicaid, employment-based defined benefit and contribution plans [401(k) plans], and individual retirement accounts [IRAs]).

For the vast majority, Social Security will be the primary source of income. Historical patterns suggest that those in the lowest 40 percent income-wise can expect over 90 percent of their income to come from Social Security. The next 20 percent will draw over 77 percent of their income from Social Security, and the 20 percent above them, over 50 percent.

Saving more is beyond the reach of most lower-income workers, so the future of Social Security and Medicare is the primary factor for boomer women.

This income situation has been relatively constant for decades, and projections suggest it is not likely to change in the decades ahead. Following its first book exploring retirement income levels, sources, and adequacy in 1982,³ EBRI published “Retirement Income in the 21st Century: Ready or Not...” in 1994. This study assessed the relative well-being of boomers as compared with prior generations and the boomers’ prospects for retirement security. From 1998 to 2003, further income prospect and adequacy studies for the states of Oregon, Kansas, and Massachusetts were undertaken by EBRI in partnership with the Milbank Memorial Fund and the Reforming States Group (RSG). These studies culminated in the 2003 publication of a national assessment titled “Can America Afford Tomorrow’s Retirees: Results from the EBRI-ERF Retirement Security Projection Model.”⁴ During 2004 and 2005, EBRI added three studies assess-

ing the changes in the retirement income system and their implication for future income.⁵ EBRI findings suggest that one way boomers could achieve a better retirement security future would be if they immediately began to save substantially more, and then preserved what they have already saved at work upon job change by keeping funds in retirement plans instead of taking lump-sum distributions and spending them.⁶ In addition, the current projections rely on benefit levels of government programs for elderly Americans such as Social Security and Medicare being maintained in the future. Any

reforms of Social Security or Medicare that reduce benefits would expand the income gap faced by boomers. Saving more is beyond the reach of most lower-income workers, so the future of Social Security and Medicare is the primary factor for boomer women as well as for men.

Figure 1: Percentage of Added Compensation That Must Be Saved Annually Until Retirement for a 90% Chance of Covering Basic Retirement Expenses
(assumes current Social Security and housing equity is never liquidated)



Source: EBRI-ERF Retirement Security Projection Model.

^a25% = 25% or more.

Most at risk are older single boomer women born between 1946 and 1950 and in the lowest income quartiles, who simply lack the resources to save enough for retirement (see Figure 1). In most scenarios, to afford basic expenditures during their retirement years, the median woman in this lowest quartile would have to save an improbable amount exceeding 25 percent of her annual pay, in addition to current savings within tax-preferred retirement savings vehicles until she reached retirement age. Those in the second income quartile seeking a 90 percent probability of having adequate retirement income to cover basic expenses would also need extra median annual savings in excess of 25 percent annually. This number declines to 12 percent increased annual savings for the third quartile and 6 percent for the top income quartile. For older single boomer women born between 1951 and 1955, added savings required for the second quartile would be 18 percent; for

the third quartile 8 percent; and for the top quartile 4 percent.⁷ A willingness to have only a 50 or 75 percent probability of adequate retirement income for basic expenses would, of course, reduce the additional savings rate required at the median for all groups but substantially affect quality of life.

Women in boomer couples would have to save less in all cases. For married older boomer women who live longer than their spouses, the question of having enough will depend on decisions related to income streams and health insurance made at the point of retirement.

Another aspect of this discussion involves the importance of older boomer women thinking about how they are going to pay for health-care expenses in retirement.

It is worth noting that we are talking about covering basic expenses, not necessarily maintaining current lifestyles. Many retirees, be they single or married, desire to spend more time and money on traveling than prior to retirement. The estimates of added savings needed do not include money for such “luxuries,” or money for rounds of golf, gifts for the grandkids, or other such “nonbasic” expenses.

It is also critical to emphasize the link between life expectancy and spending rate. Older boomer women who reach age 65 have at least a 25 percent chance of living to age 92, and at least a 10 percent chance of living to age 97. This longevity will bump up hard against boomers’ characteristic spending habits. The Retirement Confidence Survey has for many years found that men and women believe they can spend money much faster than they actually will be able to, and still have it last as long as they live.⁸ Spending studies indicate that to achieve a 95 percent probability of having your money last as long as you do, you cannot spend more than 3 percent per year of accumulated assets. Current retirees report actually spending in the range of 12 percent, meaning that many retirees will run out of money. Unless boomers are better planners than the group preceding them and successfully curb their traditionally liberal spending, they are likely to run out as well, even if they have saved enough as of age 65 for basic expenses.

Another aspect of this discussion involves the importance of older boomer women thinking about how they are going to pay for health-care expenses in retirement.⁹ Recent research published by EBRI finds that 33 percent of *current* retirees are covered by employment-based retiree health benefits.¹⁰ The data also shows that fewer *future* retirees will have access to retiree health benefits through a former employer. Instead, their options for supplementing traditional Medicare will be limited to purchasing a Medigap plan with or without Medicare Part D, or a Medicare Advantage plan. This means that a growing proportion of retirees will have to have saved money to pay for retiree health expenses as the number who can rely on past employers to pay most of their health expenses in retirement will expand. Savings needed at age 65 to pay the premiums of the middle Medigap policy, Plan F, will vary significantly by expected health inflation rates and by how long you expect to live. For a single individual, the required savings can range from \$40,000 to \$118,000 if Medigap premiums were to increase at an annual average rate of 7 percent and between \$47,000 and \$186,000 if the health inflation rate was 10 percent. Basic expenses, as referenced above, do not include such premiums.

What does it all mean? It is clear that we know a great deal about older women boomers' prospects for being able to retire at 65 and meet basic expenses for their remaining lifetimes. For over half, we can say with high confidence that they will not be able to do so, and older single boomer women face even higher hurdles in terms of preparation. Only those in the highest 20 percent by income, those who can expect most of their income to come from sources other than Social Security, will be able to retire at 65 and live comfortably. The breakpoint today to be among the highest 20 percent of retirees by income is \$30,000, lending understanding to why most older boomer women will be happy if they can even cover basic expenses during retirement. If future Social Security benefits are cut, the question will be how over half of older women boomers will be able to survive on less.

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Three factors have been shown by EBRI work to increase the likelihood that older boomer women will find financial security. First, a willingness to draw from housing equity for special expense needs increases the probability of having sufficient funds.¹¹ Second, many older boomer women will need to work past age 65. The third factor focuses on health-care expenses. Securing long-term care insurance increases the probability of having sufficient resources for certain income quartiles.¹² Also, many older boomer women are now being offered the opportunity to choose a high deductible health

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plan at work with a health savings account (HSA). Regrettably, this is not likely to eliminate the health savings shortfall. EBRI work finds that an individual age 55 in 2004 can save a maximum of \$44,000 in an HSA by the time she or he reaches age 65 assuming a 5 percent real rate of return. This assumes the individual puts aside \$1,000 a year and rolls forward 100 percent of the account each year. Cutting the rollover to 90 percent reduces the accumulation at 65 to under \$20,000. As noted above, this is nowhere near enough money to completely pay for insurance premiums and out-of-pocket expenses in retirement.

Older boomer women within couples face particular decisions linked to income streams and medical care. Couples or individuals within a couple need to either purchase a joint-life income annuity or find a way to mimic one so that the money actually lasts as long as they do. When a defined benefit annuity is available to the male spouse, its selection instead of a lump-sum distribution assures that income is available until death. Selection of a 100 percent joint-and-survivor annuity assures that income for his surviving wife continues until death. In addition, if retiree medical insurance is available to the couple, it will need to be selected in such a way that it continues into widowhood. For example, an older married boomer woman retires from a federal government job at 55 and takes a pension. But instead of taking the offer of government health insurance, she chooses to move to the insurance of the still working husband who has a non-government job. When the husband retires and/or dies, the woman will not be able to pick up the government health insurance again without returning to work for the federal government.

Understanding how to best manage such details at the time of retirement will influence outcomes for millions of older married boomer women.¹³

EBRI data suggest potential demands on public, charitable, and family resources beyond those already promised to allow the elderly to afford the same basic expenses for the duration of their life. The message is that older boomer women will face the biggest challenge of their lives as they retire. The data also show that those never married, divorced, or widowed will face the greatest challenge. The time for most older boomer women to focus on their retirement planning and increase their savings is now, even as the clock ticks ominously away.

NOTES

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5. February 2004 #266, "Americans' Future Retirement Security: Implications of the EBRI-ERF Retirement Security Projection Model." May 2004 #269, "ERISA at 30: The Decline of Private-Sector Defined Benefit Promises and Annuity Payments? What Will It Mean?" January 2005 #277, "Changes in Wealth for Americans Reaching or Just Past Normal Retirement Age."

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