

October 2018 Edition Women and the Retirement Crisis

Here's a number that will knock your socks off: \$400 trillion.¹

By 2050, the retirement savings shortfall in eight of the world's largest economies is expected to reach \$400 trillion, according to estimates from the *World Economic Forum (WEF)*. The shortfall is the difference between the amounts of money retirees may receive from government and/or employer pensions and individual savings. The amount they need to replace 70 percent of their pre-retirement income is also factored in.¹

Retirees in the United States are expected to have the biggest shortfall, coming up at about \$137 trillion short.¹

There are many reasons why countries and individuals are poorly prepared to meet the challenges of retirement, including:

- Longer life expectancies
- Disappearing corporate pensions
- Persistent, low-growth economic environment
- Low savings rates
- High financial illiteracy

Additionally, in the United States, government support systems like Social Security and Medicare are at risk of running short of funding. This is due, in part, to gains in longevity and reluctance on the part of elected officials to take unpopular actions that might include raising the current retirement age, cutting benefits, or modifying the FICA tax that funds the programs.²

The retirement crisis affects women disproportionately

While a retirement shortfall isn't news, few people recognize it does not affect everyone equally. Women are 80 percent more likely than men to be impoverished early in retirement, reported the *National Institute on Retirement Security (NIRS)*. The likelihood of financial distress increases with age:³

"For women age 65 and older, the data indicates that their typical income is 25 percent lower than men. As men and women age, men's income advantage widens to 44 percent by age 80 and older. Consequently, women were 80 percent more likely than men to be impoverished at age 65 and older, while women age 75 to 79 were three times more likely to fall below the poverty level as compared to their male counterparts."

One of the reasons older women's incomes are lower than men's during retirement is because women's incomes were lower during their working years. According to *WEF*, women's lower salaries, along with work interruptions, negatively affect their retirement savings:¹

"Lower salaries have a direct impact as individual contributions [to workplace retirement plans] are often by default a percentage of salaries, but lower salaries and lower contributions are compounded by women receiving lower employer-matching contributions than their male colleagues. On average, women also have longer life expectancies and will have to spread their savings across more years in retirement."

In addition, women tend to have higher rates of part-time employment and shorter job tenure. As a result, it may be more difficult to meet a retirement plan's eligibility requirements, reported *NIRS*.³

How can women meet the retirement challenge?

While every woman has unique life circumstances, and distinct personal and financial goals, all women can improve their retirement readiness. For many, the first step is reordering financial priorities.

A *Willis Towers Watson* survey found less than one-half (44 percent) of women ranked 'saving for retirement' as a top priority. In fact, setting aside funds for retirement was fifth on the list of financial priorities for most women.⁴

It's not unusual for young men or young women to feel little urgency about saving for retirement. Typically, retirement doesn't become a financial priority until people reach their 40s or 50s. Unfortunately, for many women, saving needs to begin at a relatively early age if they want to live comfortably throughout retirement.⁴

As a result, it's important for women – and anyone else whose goal is to live comfortably in retirement – to do the following:

- **Start saving for retirement early.** Make it a habit to regularly contribute to a retirement account. Saving small amounts at a young age can result in a bigger nest egg than saving bigger amounts at an older age.
- **Save in your workplace retirement plan, if possible.** If you're not eligible, open an IRA and contribute to it every pay period.
- **Take advantage of the IRS Saver's Credit.** Depending on your adjusted gross income and tax filing status, you may be able to claim the credit for 50 percent, 20 percent, or 10 percent of the first \$2,000 you contribute during the year to a retirement account.⁵

- **Learn more about saving and investing.** The *2017 Retirement Income Literacy Report* found retirement literacy rates were affected by gender, education, and wealth. However, few men (35 percent) and fewer women (17 percent) were able to pass a retirement income test.⁶
- **Calculate how much you may need to live comfortably in retirement and how much you should save to reach that goal.** Do this every year. The amount you need to save is a moving target because your income and circumstances may change over time.

Although retirement may seem far into the future, it's important to begin saving as early as possible. The alternative – reaching retirement age without enough savings to live comfortably – is one no one wants to experience.

If you would like to learn more about retirement planning and saving, please give us a call. We can help you get started and offer insights along the way.

Sources:

¹ http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf (Pages 7, 8, 12, and 22)

² <http://www.crfb.org/papers/analysis-2018-social-security-trustees-report>

³ <https://www.nirsonline.org/reports/shortchanged-in-retirement-continuing-challenges-to-womens-financial-future/>

⁴ <https://www.willistowerswatson.com/en/press/2018/03/gender-differences-on-saving-for-retirement-linked-to-financial-needs>

⁵ <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit>

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http://retirement.theamericancollege.edu/sites/retirement/files/Gender_Differences_in_Retirement_Income_Literacy_Report.pdf

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