

Your Finances

Income Inequality and Its Impact on Women's Retirement

We've been hearing a lot about income inequality, particularly in our current election season. This article doesn't address any of the related social or political issues; rather, it discusses why smart financial management may be especially important for women's retirement planning. - AFS.

Gender issues affect more than just a woman's paychecks. Longevity, family caregiving, and the gender wage gap influence women's long-term financial well-being and retirement security.

Generally speaking, women earn less than men, live longer than men, and often take time out of the workforce to have children and/or to care for an aging parent or sick loved one. The potential consequence of these realities? While most U.S. workers are facing a retirement savings deficit, for women, the effect is compounded: Lower pay translates into reduced Social Security benefits, smaller pensions, and less retirement savings.

Just the Facts

You needn't look far to find evidence of the gender retirement gap. Consider the following facts:

Many women will need to make their retirement nest eggs last longer than men's. According to the latest data from the Society of Actuaries, among females age 65, overall longevity has risen 2.4 years from 86.4 in 2000 to 88.8 in 2014. Similarly, among 65-year-old men, longevity has risen two years during the same timeframe, from 84.6 to 86.6 in 2014.1

The gender wage gap has a ripple effect over a woman's entire career. The National Women's Law Center has found that a woman starting her career now will lose more than \$430,480 over a 40-year career; for Latinas, this wage gap could total \$1,007,080 over a career, and for an African American woman, the total wage deficit could reach \$877,480.2 Put another way, a woman would have to work 51 years to earn what a man earns in 40 years.2

Family caregiving causes career interruptions that can have significant monetary consequences over time. Research conducted by the AARP revealed that family caregivers who are at least 50 years old and leave the workforce to care for a parent forgo, on average, \$304,000 in salary and benefits over their lifetime. These estimates range from \$283,716 for men to \$324,044 for women.3

The retirement income gap is very real. The average Social

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Security benefit for women older than 65 was \$14,234 annually in 2014, compared with \$18,113 for men, according to Social Security Administration data.4 Research shows that women also receive about a third less income in retirement from defined benefit pension plans and have accumulated about a third fewer assets in defined contribution retirement accounts than their male counterparts.5

Progress: Slow but Steady

While the evidence is compelling and points out the continuing challenge women face in attaining a secure financial future, there are also signs of improvement for women and their outlook for retirement. For instance, according to the National Institute on Retirement Security's recent study, women are working for more years now than ever before, which helps to enhance their Social Security benefits, pension income, and retirement savings. Specifically, the study found that the workforce participation of women age 55 to 64 has climbed from 53.2% in 2000 to 59.2% in 2015.5 And today as many women as men participate in workplace retirement plans.

More broad-based measures, such as legislative action to eliminate the gender pay gap would go far toward leveling the playing field for women when it comes to retirement readiness, yet such policy matters are complicated and outcomes are impossible to predict.

Beating the Odds

Despite these challenges, many women retire with enough money to relax and enjoy their later years. Here's how they do it: Saving as much as they can: This year you can save up to \$18,000 in an employer-sponsored retirement plan, plus a \$6,000 "catch-up" contribution if you are age 50 or older. Your contributions are made on pretax income, which means you're paying taxes on a lower amount.6

Becoming educated about other sources of retirement income. No matter how committed you are to saving, chances are your employer-sponsored plan won't provide all of the money you'll need once you retire. Find out as much as you can about Social Security -- and strategies for optimizing your benefits -- as well as IRAs and other investments that can help fill in the gaps.7

Make the connection between life expectancy and income needs. Even if you already have a healthy nest egg, it's important to continue saving because you could end up spending 20 or 30 years in retirement, which means you'll have to save that much more.

Regardless of your personal challenges, you can take charge of your financial future -- starting today.

Source/Disclaimer:

1Society of Actuaries, *HYPERLINK* "<http://www.prnewswire.com/news-releases/society-of-actuaries-releases-new-mortality-tables-and-an-updated-mortality-improvement-scale-to-improve-accuracy-of-private-pension-plan-estimates-245512447.html>" \t "_blank" "Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," October 27, 2014.

2The National Women's Law Center, *HYPERLINK* "<http://nwlc.org/press-releases/wage-gap-costs-women-more-than-430000-over-a-career-nwlc-analysis-shows/>" \t "_blank" "Wage Gap Costs Women More Than \$430,000 Over a Career, NWLC Analysis Shows," April 4, 2016.

3 *HYPERLINK* "http://www.aarp.org/content/dam/aarp/research/public_policy_institute/lrc/2012/understanding-impact-family-caregiving-work-AARP-ppi-lrc.pdf" \t "_blank" "AARP: Understanding the Impact of Family Caregiving on Work, Fact Sheet 271, October, 2012 and MetLife Mature Market Institute, "The MetLife Study of Caregiving: Costs to Work Caregivers: Double Jeopardy for Baby Boomers Caring For Their Parents," 2011.

4Morningstar, *HYPERLINK* "<http://www.morningstar.com/articles/collection/748-mark-muller-remaking-retirement.aspx>" \t "_blank" "Retirement: The Other Economic Gender Gap," June 7, 2016.

5National Institute on Retirement Security, *HYPERLINK* "http://www.nirsonline.org/storage/nirs/documents/Shortchanged/final_shortchanged_retirement_report_2016.pdf" \t "_blank" "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," March 2016.

6To make the catch-up contribution, you are first required to save the annual maximum of \$18,000.

7Distributions from a traditional IRA will be subject to taxation upon withdrawal at then-current rates. Distributions taken prior to age 59½ may be subject to an additional 10% federal tax.

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