

Managing the Risks of Retirement

When creating a retirement financial plan, most financial advisors recommend a goal of saving enough money to have 80-85% of your pre-retirement income in retirement, but WISER urges women to plan for 100% of their pre-retirement income. Why the difference?

There are bumps and pitfalls during the average twenty year retirement period that put people, particularly women, at risk of falling short of the funds needed to maintain a comfortable lifestyle. Inflation and the risk of outliving income, living alone — divorce and widowhood — and increased health care expenses including increased costs for medical insurance premiums and prescription drugs.

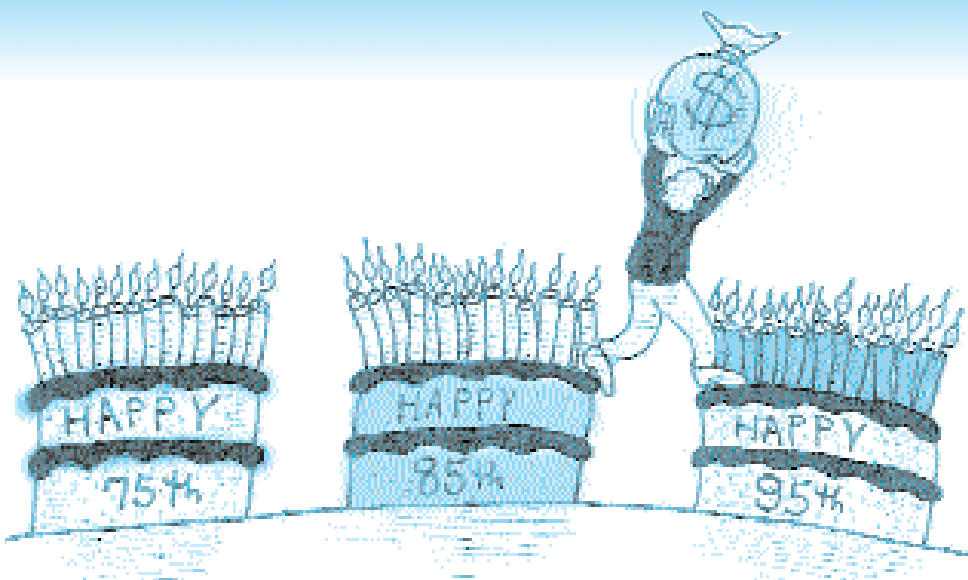
Being aware of the risks and planning for these possibilities will place you in a more secure position financially.

The Impact of Inflation

Inflation can seriously erode retirement assets, even a relatively low rate of inflation. If the rate is low when you retire, it may rise significantly during your retirement years and cut your ability to pay for things in half. Social Security has cost-of-living adjustments to help retirees keep even with inflation, but most private pensions do not — and if you are managing a lump sum from a 401(k) plan it will take strong returns from your investments to make up for the inflation loss. One strategy is to aim to have 100% of your pre-retirement income after you retire, through a combination of savings and Social Security — if you earn \$40,000 before retirement then save enough to have the same amount. Then, even if your expenses are lower in retirement, you will have the flexibility to weather inflation.

Living Alone — Divorce and Widowhood

Many of us approach our retirement years with plans we've made for travel, leisure or moving to a new location — plans



made with a spouse in mind. But few of us plan for the eventuality of losing a spouse and the financial consequences of living alone. This is one of the largest planning pitfalls for women. By the time women reach age 80, only 16% will be married. Compare that to men who live to age 80 — about 80% of them will be married. Because women live longer than men, widowhood is a very real possibility and the financial consequences of widowhood are serious.

Once widowed or divorced, women experience a significant decline in income, usually the result of losing one of the couple's two Social Security benefits, and if there is a pension a reduction of 50% of the benefit and in some cases, the loss of the entire pension check. But, many of the expenses of daily living, such as housing and utility costs will remain about the same. The result is a large drop in income to pay for food, medical care and other expenses. Consider also that the average older woman spends 20% of her income on medical expenses and you can see how as we age a woman's financial position becomes riskier.

Managing the Risks *continued on page 4*

From WISER's Executive Director



Even the best laid plans go awry, goes the old saying, and the same is true about retirement. After years of planning and saving, many retirees come

up against unexpected stumbling blocks. Some folks may be counting on income from a job to supplement retirement income yet find themselves unemployed and unexpected health issues may surface requiring long-term care.

In this issue, we discuss potential risks and the strategies that will help you keep your retirement security on track. The risks are not insurmountable — information and advance planning will help to keep you on track to the retirement you want.

If you, like many Americans, haven't saved enough, don't despair. Read on, and then sit down and start working on your retirement plan. It's all within reach. ☐

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Five Money Myths that Get Smart Women in Trouble

Myth 1:

The majority of women are now part of the paid labor force so they will be better off in retirement than current women retirees.

Facts: Elderly women are twice as likely to live in poverty as men and experts do not predict much change in the future because: women earn less money than men and have less to save; caregiving responsibilities make women more likely to leave jobs or work part-time and forfeit pension benefits as a result, and women work where pension benefits are less common.

To overcome these challenges, women need to: make a retirement savings plan early in life and stick to it; stay at jobs long enough to earn retirement benefits; and seek out jobs with better benefits when possible.

Myth 2:

You need to have a lot of money before you can start investing.

Facts: Many investment companies offer low-cost mutual fund accounts that can be opened with small deposits, some as low as only \$50.00. The federal government makes it very simple to buy I bonds, which pay interest rates based on inflation, and can take automatic deductions from your checking or savings accounts.

Money invested early in life will reap a greater reward than waiting until later when you have more money. Why? Compound interest — A woman who invests \$2,000 each year from age 22 to 30 and then invests nothing until age 65 will have \$579,468 available at age 65. A woman who waits until age 31, and invests \$2,000 each year until age 65, will only have \$470,249 available at age 65 — or about \$161,000 less than the woman who started saving earlier! (assumes a 7% rate of return)

Myth 3:

If your husband has health and pension plans you don't need to worry about your own health and pension plans.

Facts: Women who rely on a husband's retirement or health plan can end up in trouble, particularly if they divorce or if the husband dies. Relying on just one benefit is not likely to produce enough income to maintain your standard of living after retirement. Couples with two retirement plans have a cushion if one plan loses money or performs poorly over time. Finally, companies can change retirement plans at any time. While you can't lose benefits you already earned, future benefits can change dramatically. Lessen every risk you can.

Myth 4:

If your company has a pension plan, you will automatically receive a benefit.

Facts: Employers do not have to cover every employee in the pension plan. Make sure your job category is covered in the plan and that you are a member of the plan. Also, plans require that you work for a specified amount of time to earn benefits. Some plans require 3 years, many require 5 years and some still require 10 years of service. Know how your plan works.

Myth 5:

The Medicare program will take care of my long-term care needs.

Facts: Many women are surprised to find out that Medicare doesn't cover long-term care costs — nursing home or home health care costs. Medicaid pays for nursing home care in many cases, but usually you must "spend down" all of your resources. Women should have a future plan that includes paying for long-term care through a combination of assets and insurance. ☐

Delaying Retirement Reaps Big Rewards

A recent report by the non-partisan Congressional Budget Office (CBO) makes the case for delaying retirement for those boomers who have not saved enough to retire at normal retirement age and maintain the same standard of living.

Researchers and policy advocates frequently point out that the coming wave of baby boomer retirements will find many boomers with the realization that their assets will not be sufficient to finance retirement.

However, the CBO report points out that *delaying retirement by even a few years can substantially improve the financial outlook for boomers who have a savings shortfall.* Working a few years longer and saving more income has several important effects.

- * It shortens the number of years spent in retirement and reduces the total funds needed.
- * Working longer allows funds already invested to continue to grow and gain in value.
- * Waiting to collect Social Security benefits increases the overall benefit amount, making a big difference for moderate earners:
 - the oldest boomers will be able to collect 75% of normal benefits at age 62,

- 100% if they wait until age 66, and
- 132% if they wait until age 70.

* Waiting to collect Social Security benefits can also increase the benefit amount if the worker is earning substantially more than in previous years because Social Security benefit amounts are based on the highest 35 years of wages.

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CBO's example illustrates the dramatic effect of delaying retirement. A married couple in their early 60s with gross earnings of \$77,000 per year, will need about \$46,900 in after-tax income for retirement in order to replace 80% of their pre-retirement income, a minimum replacement level advocated by most financial planners. (WISER

recommends trying to plan for 100% of your current after-tax income). This couple can expect to receive \$20,100 in annual Social Security benefits, leaving an annual gap of \$26,800 to fill with savings. In order to purchase an annuity that will pay enough to close the gap, they will need to save about \$510,800 before retiring.

So, what does the couple do if they've only saved about half as much as that? It may seem insurmountable, but in fact, if this couple reaches age 62 with only half the assets they need, they can still close the gap. To make up the difference, the couple could continue to work until age 66, save about 10% of their net income each year — achieve a return rate on their savings of about 3% above inflation and reach their retirement goal by age 66. Even more dramatically, if this hypothetical couple reaches age 62 with only about \$51,000 in savings, compared to the \$510,000 they need, they can still retire comfortably at age 70 if they work until then, save 10% of their net income each year and achieve a 3% inflation adjusted return on savings.

So, if you think you are behind schedule in your retirement savings, don't despair, and don't give up! Increase your savings and plan to work a few years longer, if possible. ☺

Savings at age 62	Savings needed to fill gap over lifetime	Actual Age for Comfortable Retirement	% of Income into Savings	Return Rate on Savings
\$255,400	\$510,800	66	10%	3% over inflation
\$51,000	\$510,800	70	10%	3% over inflation

Managing the Risks of Retirement

continued from page 1

How to manage this risk?

* Couples with a traditional pension at retirement should consider choosing the survivor benefit option. Former *Washington Post* reporter, Stan Hinden, a financial writer for 20 years, claimed his biggest mistake when retiring was not choosing the survivor benefit for his wife. One reason many people do not choose the survivor



benefit is that the monthly amount of the benefit will be less because it works like an insurance policy by paying on the life of the survivor.

- * Women in couples who have planned to have a combined Social Security, pension and savings income equal to 100% of their pre-retirement income will have a better cushion to fall back on when a spouse dies.
- * Women who purchase immediate annuities with part of their savings can have a guaranteed stream of income over their lifetime, and are less at risk of running out of money. Annuities are purchased from insurance companies, and in exchange for a lump sum of

money, the insurance company promises a steady stream of income that will not stop until she dies. For example, a \$125,000 investment in a fixed rate annuity would pay an average of \$800 a month for life. Money invested in certain types of annuities can be passed on to heirs when the purchaser dies. For many women, it may make sense to explore this option in order to insure a stable source of income to supplement Social Security.

- * Women with substantial equity in their home, who plan to live in their home long-term may consider taking a "reverse mortgage" on their home and borrow against the equity for living expenses. Funds from a reverse mortgage can be paid in a lump sum or monthly payments. The loan does not

have to be repaid until the borrower dies or sells the house. A reverse mortgage can help many retirees live more comfortably, and remain in their own home. You should consult a financial advisor before taking a reverse mortgage. Home equity spent on daily living expenses will not be available if the homeowner decides to move to an assisted living or other senior housing arrangement, and also will not be available to pass on to heirs.

- * About half of all marriages in this country end in divorce, and there has been an increase in divorce among mid-life and older adults over the last two decades. Under the divorce laws of every state, a pension earned during a marriage

is considered to be a joint asset or the marital property of both husband and wife. However, it is not automatic — your attorney must specifically ask for a share of the pension at the time of your divorce, not later when your husband retires. The attorney must also ask for a special court order, a Qualified Domestic Relations Order or QDRO that spells out how the share of the pension should be paid by the pension plan.

Health Care Expenses

The average retired woman spends close to 20% of her income on health care costs. For low-income retirees, the burden is much greater. Lower income retirees, primarily women and minorities, may spend 35% or more of their resources on health care. Paying for prescription drugs is a major concern for many seniors.

A recent study found that only those workers with a traditional pension, social security and retiree medical coverage will reach the level of income needed in retirement.

Most retirees who are successfully managing health care expenditures have additional coverage beyond Medicare.

- * Planning in advance for retiree health care coverage, or having sufficient funds to purchase medigap insurance is the surest way to manage this risk. Most retirees who are successfully managing health

Managing the Risks continued on page 5

Managing the Risks of Retirement

continued from page 4

care expenditures have additional coverage beyond Medicare.

- * Work longer and be retired fewer years. See page 3 article.
- * Seniors can obtain free consumer counseling at Medicare-sponsored insurance counseling services offered around the country, called SHIP programs. These counselors will help seniors find state and private prescription drug plans, managed care plans or other services or government benefit programs to help pay health care costs.

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Housing Needs/Living Independently

Many seniors at some point in their lives will experience a loss of ability to live independently, often as a result of illness, disease or age. The risk increases sharply with advancing age. Yet, many near retirees have no plan for what they will do when they are no longer able to live independently. Often, a change in housing is also precipitated and seniors may find they need an assisted living arrangement, nursing home or even just a new apartment or home that is wheelchair accessible or without stairs.

- * Give serious consideration to buying long-term care insurance once you are age 50 or older. Shop around for a policy before you commit to one. WISER's Spring/

Summer 2005 newsletter contains "A Woman's Guide to Long-Term Care Insurance" (available on our website at www.wiserwomen.org). The guide explains long-term care policies, how to buy them, and what to look for in a policy. Long-term care insurance will give you more choices in the type of care and setting, and policies with a good home care benefit can help you remain in your own home.

- * If you think you may need to move to a senior or assisted living community, look around at what's available before you are in a crisis situation. Some assisted living communities require a large lump-sum payment for entrance. Take the time to investigate what's available in your community and understand what the costs are. Moves can often be financed through savings, home equity and retirement income.

- * Medicaid will pay for nursing home care for the disabled, but only after the individual "spends down" their personal resources. There may be more limited options for choosing the setting for the care under Medicaid—individuals with long-term care insurance and savings and home equity will have better quality choices.

Living Too Long/ Running Out of Money

Many times, people arrive at retirement with a lump sum amount of cash, and no idea how much they can withdraw each year, or when they will

run out of money. As a rule of thumb, you can withdraw about 4-6% of your assets in your sixties, 5-7% in your seventies, 6-8% in your eighties and 8-10% in your nineties. As an example, if you have \$50,000 saved for retirement, you will be able to withdraw about \$2,500 each year or about \$200 each month in your sixties. In your seventies, the amount you will be able to withdraw will increase to about \$250 each month and about \$300 each month in your eighties.



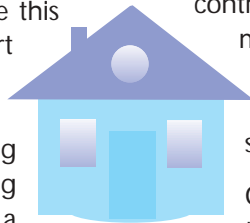
Make a list of all your expected sources of retirement income, including pensions, Social Security, savings, employment and any other income. WISER's website has a link to a calculator that will help you calculate how much you need to save for retirement.

Every woman should have a retirement plan during her working years, and review the plan periodically. Take an active role in making your plan work as you may need to rely on it for the twenty or more years that you will live in retirement. ☺

Medicare Offers Hospice Care

Many people are not aware that Medicare beneficiaries can choose hospice care for end-of-life treatment, instead of traditional hospital care. For those who would prefer to die at home this option may provide comfort — studies show that for most people their biggest fears about dying include pain, isolation, losing dignity or control or being a burden to family.

Hospice care is usually provided at home but can also be provided in a hospice facility or hospital by a coor-



ordinated team of medical personnel, social workers, grief counselors, spiritual counselors, home health aides, and volunteers. The care plan includes pain management, symptom control, home health and home-maker services, spiritual counseling, nutrition counseling, and bereavement support for the family.

Generally, Medicare will pay the full cost — with the exception of small co-payments for drugs and respite care for family caregivers. ☒

WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income through research, workshops, and partnerships.

Next Issue:

☒ **Don't Take the Money and Run: Lump Sum Payments**



WISERWoman

A QUARTERLY NEWSLETTER FROM THE
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