



**PETER  
McCARTHY**

*JD, MBA, CLU, ChFC, is a senior advanced sales consultant for ING's life sales support. He has more than 20 years of experience in advanced marketing and has previously worked as advanced sales counsel for Minnesota Life, Prudential Insurance Company, and American Express Financial Advisors.*

*McCarthy practiced law as an estate planning attorney with a large Minneapolis law firm. He earned his JD degree from the University of Miami (FL) School of Law and an MBA from Rollins College. A number of his articles on estate, business, and charitable planning concepts have been published in national financial journals and magazines, and he frequently speaks about estate and business planning concepts to industry groups and continuing education forums for the legal and accounting communities.*

*McCarthy can be reached at ING, 20 Washington Avenue South #5750, Minneapolis, MN 55401. Telephone: 612-342-7699. Email: [peter.mccarthy@us.ing.com](mailto:peter.mccarthy@us.ing.com).*

# Retirement Risks Women Often Overlook

**The Next Retirement Wave.** As they enter their sixties, boomer women are beginning to retire. Many of them have held good jobs, saved their own retirement money, and earned pension benefits from their employers. Notwithstanding all their hard work, it still may be difficult for them to have a financially secure retirement.

Planning for retirement is hard; no one really knows how much money will be needed to be financially secure for 20 to 40 years after leaving the workforce. The amount needed depends on many things that will happen in the future and which can't be controlled. Things like inflation rates, investment performance, federal and state tax rates, lifespan, unexpected medical expenses, nursing home expenses, and property damage from unexpected natural disasters.

## Retiring Women Can Be Vulnerable

**Achieving a financially secure retirement may be more difficult for women than it is for men.** There are a number of factors that make retirement planning harder for women:

- ✓ On average they live three years longer than men; in fact, 30 percent of all women who live to age 65 can expect to live to age 90.<sup>1</sup>
- ✓ Since many women serve as caregivers to other family members, they are in and out of the work force more often; on average, women today work about 12 years less than men.<sup>2</sup>
- ✓ Women generally save less for retirement than men.<sup>3</sup>

Some current trends in American business are increasing the difficulty. For example, many businesses are changing their pension plans. They are terminating their defined benefit plans and substituting less expensive cash balance plans, defined contribution plans, profit sharing plans and 401(k) plans to shift the risk of investment performance to the employee. Many businesses are reducing health care benefits, which forces employees and retirees to be responsible for a larger share of these costs. As a result, retirement costs are increasing and saving for retirement is more difficult.

**Single Women.** Retirement planning is probably hardest for single and divorced women. They alone must save and invest for retirement, yet they earn about 80 cents on the dollar compared to men. To be truly financially secure, they may need to save more, work longer and invest more aggressively.

**Married Women.** On the surface, retirement appears that it should be easier for married women. While there may be more assets and income available, the reality is that retirement planning for married women can be more complicated. Their planning has more variables, including two sets of assets; two different retirement dates; two different life spans; and two different viewpoints on future goals, investing and spending.

**The Risk of Widowhood.** A significant additional problem for married women is the risk of widowhood. Married women

often underestimate or overlook this risk and the potential financial problems it can cause.

Anna Rappaport, a consulting actuary, wrote the following in an article published in *Investment News*, "Addressing Women's Unique Concerns," July 14, 2008:

"Most women outlive their husbands—sometimes by 15 or more years. Many women experience a significant drop in economic status at widowhood. In fact, about 40 percent of widows have no significant income other than Social Security. According to the official poverty threshold, a single person requires nearly 80 percent of the income needed by a married couple. Yet the Social Security benefit paid to a survivor typically is between 50 and 67 percent of what a couple receives."

*Widows face at least four significant financial risks:*

**1. Risk of Reduced Income.** Wives need to consider the possibility that their income will drop after their husband's death. There are a number of ways in which a husband's death can reduce the income available to the surviving spouse:

- ✓ Possible reduction in defined benefit pension payments from the husband's plan.
- ✓ Social Security benefits payable on the husband's account may decrease.
- ✓ Health insurance coverage from the husband's employer and other insurance coverages may be eliminated or become more expensive.
- ✓ The husband's estate plan may distribute some assets to others; the use of and income from those assets may no longer be available.

✓ The husband may have left debts or obligations that must be paid.

**2. Risk of Poor Investment Performance.** We all want to believe that the value of our investments will keep growing over time. However, this isn't always the case. Investment values go up and down from year to year. The value of investment assets may decrease because of changes in the national economy, industry trends or poor individual company performance. If the value of a widow's investments declines,

then there will likely be a decline in the income those investments produce. Without enough income, investment principal may have to be used to pay expenses. And, as the investment principal is reduced, so is the potential for future income. The result could be a quickening decline in financial security.

**3. Risk of Reduced Purchasing Power.** Even if there is no reduction in income at the husband's death, the purchasing power of the widow's income is likely to decrease over time. That's because inflation will almost certainly cause the cost of needed goods and services to rise. The result will be a reduction in buying power. If a widow's income doesn't grow with inflation, her buying power will go lower and lower as the years pass.

**4. Longevity Risk.** One of the toughest planning problems is estimating how long the money needs to last. Many retirees don't recognize that life expectancy figures are an average and that half of retirees will live beyond estimated life expectancy. Nearly two-thirds of people underestimate their life expectancy and about 40 percent are wrong by more than five years.

Once a woman has reached age 65, she has a 49 percent chance of living to age 89 and a 23 percent chance of living to age 95. When it comes to married couples, there is a 47 percent chance that one spouse will live to age 93 and a 26 percent chance that one will live to age 97. It seems clear that the retirement nest egg may have to last for a long time.<sup>4</sup>

### The Role of Life Insurance

Life insurance can be a critical component of a woman's long term financial security. Single women may be able to purchase a policy insuring a parent or sibling, or if a parent or sibling already has life insurance coverage, it may be appropriate for the woman to be named as a beneficiary. If a parent or sibling has a policy which they no longer want, the single female relative could take it over and pay the premiums.

Single women may also purchase policies on their own lives and use the cash values to accumulate tax-deferred funds that can be

available for future retirement income.

For a married woman, life insurance coverage on the husband may be extremely helpful. A married woman who survives her husband can't possibly know in advance how much of the retirement assets will remain for her to use. Some widows will have enough financial assets of their own and not need the husband's assets. Often, however, that's not the case. A couple may spend too much in the early years of retirement, their investments may experience unexpected losses, or one of them may have an extended illness that generates serious medical expenses or a long nursing home stay. Any number of things could happen to negatively impact their retirement assets and drain their savings.

A life insurance policy on her husband may serve as a cash reserve to shore up a surviving widow's finances. The income-tax-free policy death benefits can act as a financial safety net to secure the widow's finances and peace of mind. Life insurance on the husband can provide a margin for error if their retirement planning doesn't play out as originally scripted.

The "Joint Task Force Report on Issues Affecting Women as They Age," conducted by the Chicago Bar Association and the Women's Bar Association of Illinois, published on September 27, 2007, concluded:

"Maintaining adequate death protection is an important part of your retirement plan. Life insurance is often the most logical way to provide such death protection. The accumulated savings of even the most careful planners can be quickly drained by the death of a spouse or other unanticipated misfortunes. Moreover, savings can stop when a person a woman depends on is no longer available. The right insurance coverage can protect women and help them preserve their retirement savings."

### The Opportunity

Frequently, both men and women forget that life insurance can help them maintain their retirement financial security. They're used to thinking of life insurance as a tool for providing funds to pay off the mortgage or put the kids through college in the event

of premature death during their working lives. They may not have considered it as a way to preserve their own financial security during retirement. Consequently, it can be overlooked.

As contributors to their joint retirement fund and as partners in retirement, married women must acquire adequate life insurance coverage to protect their long term financial security. Wives with sufficient assets can volunteer to pay the annual premiums.

Of course, there is no guarantee that the husband will die first. Sometimes the wife is the first to die. Occasionally a husband will object that he has the same potential risks

if his wife dies first. Her medical expenses and nursing home costs could deplete their assets and leave him in financial difficulty. That is absolutely correct; and if he's concerned enough, he should consider purchasing a life insurance policy on her.

**The stakes in retirement planning are potentially higher for women than they are for men.** Married women in particular must walk a financial tightrope in planning for and living through their golden years. Trends and events that take place after they retire can directly impact their quality of life, and they may be powerless to do anything about it. They need to plan to have a cash reserve to absorb unexpected shocks

and to help recover from unexpected losses. Life insurance coverage on the husband is an excellent tool for bolstering a surviving spouse's financial foundation and securing a reasonable lifestyle for her remaining years. Ask your retired and retiring clients to consider using life insurance in their planning. 🌐

1. "Why Women Worry," *The Hartford and the MIT AgeLab*, 2008; and "Key Findings and Issues: The Impact of Retirement Risk on Women," *Society of Actuaries*, 2005.

2. U.S. Census Bureau (2003, 2004) and U.S. Social Security Administration (2003).

3. "Can Women Bridge the Retirement Savings Gap?" *Business Week*, August 11, 2008.

4. "Why Women Worry," *Ibid.*