The female investor’s strategy for targeting desired retirement outcomes

Overview

Retirement success begins with targeting a desired outcome. BNY Mellon Retirement defines a successful retirement outcome as achieving income sufficient to sustain and protect one’s desired retirement lifestyle plus legacy goals. For many, this means having the financial security and ability in retirement to:

- Meet day-to-day living expenses
- Make personal lifestyle choices about where and how to live, and to be able to enjoy hobbies and personal pursuits
- Maintain quality of life, personal health and independence
- Leave residual assets for heirs and achieve philanthropic goals

Retirement is a journey, not a destination. How individuals live today dictates how they will live in retirement, and experience confirms that having a financial plan leads to a more confident financial future. We believe by focusing on four fundamental interconnected financial behaviors (Earning, Spending, Investing and Insuring), and with the help of a financial advisor, individuals are better able to achieve their desired retirement outcomes.

This insight paper looks at the challenges that Americans – and women in particular – face in saving for retirement. It also presents principles for successfully achieving targeted retirement outcomes, designing budgets, prioritizing goals and investing with purpose for a more secure retirement.
The state of retirement in America.

THE FINANCIAL DOWNTURN OF 2008
For all Americans, retirement readiness lost considerable ground during the financial downturn of 2008, which wiped out trillions of dollars of household wealth, and left many who are still struggling to regain solid footing. Although headlines show stock market and housing recovery since the recession, the Federal Reserve Bank of St. Louis points out that the recovery has been uneven across American families, with stock market and housing gains accruing mainly to the wealthy.1,2

STRAINED GOVERNMENT PROGRAMS
Additionally, government-funded entitlements, such as Social Security, have become strained in their sustainability and adequacy as longer life expectancies and medical advancements mean more people are receiving government benefits for longer timelines. At the same time, the number of workers supporting one Social Security retiree has dropped from 41.9 in 1945 to 2.9 in 2010. To honor the growing number of entitlements, the government will need to either defer or decrease benefits, increase taxes or execute some combination of both.

THE SHIFTING OF RESPONSIBILITY TO INDIVIDUALS
Another factor magnifying the retirement challenge for many is the employer-sponsored retirement system, which has undergone dramatic changes in the last few decades. As a nation, we have shifted the risk of funding retirements from employers through Defined Benefit pension plans to employees who now fund their own Defined Contribution plans.

This has resulted in:
- Investment decision-making by individuals who often are ill-prepared to do so
- Potentially sub-optimal portfolio performance
- A greater reliance on Social Security

Taken together, these issues have all compounded the retirement journey, resulting in an American populace that will largely face a retirement primarily dependent on Social Security income unless something different is done.

THE SUSTAINABILITY OF SOCIAL SECURITY

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Workers Supporting One Social Security Retiree</th>
</tr>
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<tbody>
<tr>
<td>1945</td>
<td>41.9</td>
</tr>
<tr>
<td>2010</td>
<td>2.9</td>
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</tbody>
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2 “Average Americans Still Have Not Recovered from Crash, but the Wealthy Are Flourishing,” May 11, 2013.
With the onus of saving shifting to individuals, Americans are struggling to save on their own and are relying heavily on government benefits.

45% of all working-age households and 41% of near-retirement households do not own any assets in a retirement account.4

36% of those receiving Social Security benefits today derive 90% of their income from this one source.5

24% rely on Social Security as their only source of income.6

1/3rd of all retirees have little to no income outside of Social Security during a time when lifespans are longer and healthcare costs are rising.7

WHERE DO AMERICANS STAND WITH THEIR RETIREMENT SAVINGS TODAY?

A significant portion of the American workforce has zero savings for retirement. Many have little to no income outside of Social Security, which clearly is an unreliable source based on the sustainability issues it faces. The need for professional guidance becomes clear in order for individuals to achieve their targeted retirement outcomes.

7Social Security Administration. Fact Sheet, November 2015.
The state of retirement for women.

Women represent a rising force in America, a virtual powerhouse of economic might. They serve as primary breadwinners in a growing number of homes, earn the most college degrees, represent the majority of the workforce, and will soon influence two-thirds of the nation’s wealth. And yet, their ability to achieve their targeted retirement outcomes lags significantly behind men. This is true for a number of reasons, from lower wages to fewer years in the workforce to fewer contributions to employer-sponsored savings plans.

Because women assume the lion’s share of parenting and caregiving roles, and often stop working to care for an ill spouse or aging parent, their earnings and savings are directly affected. On average, women work 12 years less than men do throughout the course of their careers, and those are often the years of greatest earnings potential. Female workers are also more likely to work part-time, and the majority of those jobs do not offer employer-sponsored retirement benefits.

Fewer years on the job and lower wages means less income, fewer contributions to retirement plans and less lifetime savings upon entering retirement. Women also typically receive thousands of dollars less annually than men from their Social Security benefits. Again, this is the result of lower wages gained over their lifetimes, and reflects an outdated Social Security system that was designed to support married heterosexual couples where one spouse was the breadwinner.

The irony is that women live longer and, therefore, require greater assets than men to help ensure a comfortable retirement. But with the right financial plan and advisor, women have the ability to avoid a future with less-than-adequate retirement savings. The following pages outline the BNY Mellon Retirement approach to saving for retirement and to helping women – with the guidance of a financial advisor – take control of their financial lives.

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The income gap between men and women.

<table>
<thead>
<tr>
<th></th>
<th>WOMEN</th>
<th>VS.</th>
<th>MEN</th>
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</thead>
<tbody>
<tr>
<td><strong>ANNUAL EARNINGS</strong>(^a)</td>
<td>$39,000</td>
<td></td>
<td>$49,000</td>
</tr>
<tr>
<td><strong>TOTAL INCOME IN RETIREMENT</strong>(^b)</td>
<td>$16,040(^*)</td>
<td></td>
<td>$27,612(^*)</td>
</tr>
<tr>
<td><strong>SOCIAL SECURITY INCOME</strong>(^c)</td>
<td>$12,856(^*)</td>
<td>Average annual benefit</td>
<td>$16,590(^*)</td>
</tr>
<tr>
<td><strong>SOCIAL SECURITY AS A PERCENT OF INCOME</strong>(^c)</td>
<td>49% Unmarried women (including widows)</td>
<td></td>
<td>35% Unmarried men</td>
</tr>
<tr>
<td><strong>PERCENT LIVING IN POVERTY</strong>(^d)</td>
<td>9%</td>
<td></td>
<td>5%</td>
</tr>
</tbody>
</table>

\(^a\)Only 45% of salaried women participate in an employee-sponsored retirement plan.\(^3\)

\(^b\)Social Security fact sheet. Social Security Is Important to Women.

\(^c\)Congressional Analysis of 2012 Census Data.


\(^*\)Age 65 and older

49% of all unmarried females (65+) rely on Social Security for 90% or more of their income.\(^a\)

ONLY 45% of salaried women participate in an employee-sponsored retirement plan.\(^3\)
Retirement challenges are compounded for women.

All Americans are facing sizable challenges as they prepare for retirement, but the difficulties are further compounded for women. As caregivers for the family, as the ones most likely to be widowed, as the ones responsible for their own long-term care, women have critical planning and investment needs that often extend beyond those of men.

Additionally, women are more likely than men to underestimate their own financial knowledge. Sixty percent of surveyed men rank themselves as very knowledgeable or somewhat knowledgeable about personal finance, compared to just 48% of women.1

For all the confidence women have in their abilities to meet job expectations, address life responsibilities and manage household finances, they often lack confidence in their ability to plan and invest for the future and will refrain from engaging fully in the management of their money.

BNY Mellon Retirement believes that the expert guidance from a financial advisor can be key to helping female investors take charge of their financial futures and meet their considerable retirement challenges. Working together, female investors can better achieve a lifetime of goals.

The Consequences of Caregiving

When a family member is sick or in need, the woman in the family is most likely to provide the care. Women will often stop working, cut back their hours and even retire to care for a spouse, child or parent. The result? Fewer assets to pay for their own care as they have expended them on behalf of others.

Due to their caregiving role, women work 12 years fewer than men over the course of their careers.2

An estimated 66% of caregivers are female.3

POTENTIAL SOLUTIONS

A financial advisor can help female investors understand the ramifications of being a caregiver and guide them in planning for this critical issue. Given that women provide care for their spouse and spend down their assets doing so, an advisor may suggest a supplement to cover the period of need, or spouse disability insurance.

Meetings with family members is another way to address the caregiving issue. Children or grandchildren may be unaware that Mom is spending down her assets and may be able to subsidize the caregiving in some way so she can continue to work and earn income.

1Chen and Volpe, Gender Differences in Personal Financial Literacy. 2AARP Public Policy Institute. 3www.caregiver.org/women-and-caregiving-facts-and-figures.
The Impact of Longevity

Women reaching age 65 in 2015 are expected to live, on average, an additional 21.6 years compared to 19.3 years for men. Women are four times more likely than men to be widowed, and will outlive their spouses by an average of 14 years. For women with partners, that leaves many years with less total household income as they age, and a greater reliance on Social Security as they exhaust their other sources of income.

POTENTIAL SOLUTIONS

Two of the most important decisions women can make are the timing and method they choose for claiming Social Security. With all the increased costs women experience with age, these decisions are crucial to a successful retirement. For example, today a woman at age 62 may be eligible to claim an annual benefit of $22,500. At age 66, the benefit increases to $32,000, and at age 70 to $48,900. Similarly to how life insurance protects the family in case of death, longevity insurance protects women from outliving their savings. Married clients should also consider the financial pros and cons of taking a survivor annuity payment on their partners’ pensions, rather than the larger payment based solely on life expectancy. This is also true of annuities that the couple may have purchased.

The Cost of Long-Term Care

While women are living longer and healthier, those who need long-term care will generally need five years of support, including up to three years of more extensive care. Men spend only half that time needing care at that level.

How much money is needed for long-term care? Women need approximately $45,000 more at retirement than men do, just to cover general medical expenses during retirement (e.g., Medicare premiums, prescription drug costs, co-payments). Additionally, long-term care costs can run anywhere from $40,000 to $80,000 per year once the support is needed. If both spouses need care, the lifetime cost of long-term care could amount to $1 million or more.

POTENTIAL SOLUTIONS

Even though most care happens toward the end of life, women must be diligent about preparing for this need in advance. Long-term care shocks, by their nature, are unpredictable. Therefore, BNY Mellon recommends working with a financial advisor to stress test financial plans, even for wealthy clients. Obviously, given that women may require long-term care for several years, long-term care insurance has clear planning benefits.

RX

$200,000
Average lifetime cost of healthcare

4.7 – 5.8
Number of years average woman will need long-term care

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The good news: Retirement success can be achieved.

By targeting a desired retirement outcome, individuals will find the stability and focus they need for their retirement planning purposes. Most people have a vague idea of how they want to live during retirement, and that provides a start. But most require some guidance to sharpen that picture and set clear and definable goals. Financial advisors can help establish practical and achievable retirement outcomes by encouraging investors to spend time thinking about their future and answering the following questions:

- Will I live independently or with a significant other?
- Where do I want to live?
- Do I want or need to be close to brothers/sisters/children/parents?
- What is my idea of retirement?
- Do I want to stop working altogether after I retire?
- What role will my health play in the quality of my retirement?
- Do I want to work less or less hard?
- What part will my family members play?
- Do I have philanthropic goals?
- Do I want to leave a legacy or pass assets to my children?
Reverse planning – The financial GPS to retirement

Once a targeted retirement outcome has been established, the next step for financial advisors is to help their female clients design a budget, or a financial GPS, that maps out a clear route to wealth building and desired retirement outcomes. One of the most effective methods advisors can use is reverse planning, which starts with the retirement outcome and then builds a budget by working backwards.

Reverse planning quantifies the cost of retirement in terms of annual expenses, then projects them over the client’s retirement life expectancy, and solves for the gap between retirement income and expenses.

Female investors can work with a financial advisor to first calculate what retirement will cost initially and annually. An advisor can help determine what guaranteed sources of income can be expected from Social Security, pensions and annuities, and can subtract the guaranteed annual income from the expenses to calculate the funding gap. The advisor then can estimate the value of assets that would be necessary to help generate sustainable income to close the gap. That asset value is the target necessary to achieve the desired retirement outcome.

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REVERSE PLANNING CAN HELP SOLVE THE GAP BETWEEN RETIREMENT INCOME AND RETIREMENT EXPENSES.

Retirement is a journey, not a destination.

How individuals live today dictates how they will live in retirement. With the help of a financial advisor, individuals are encouraged to target their desired retirement outcomes, which requires focusing on four fundamental interconnected financial behaviors: Earning, Spending, Investing and Insuring.

This “four behaviors concept” is beautiful in its simplicity. For the most part, individuals know they must earn income in order to spend. And they must spend in order to provide for their needs and wants. What they are less familiar with is the extent to which they must invest prudently in order to spend more and work less in the future, and their need to insure their earnings, assets and health against unforeseen events that could derail their retirement plans. It is through professional advice that female investors can appreciate the interplay of these four behaviors and take action to holistically manage them.
Establishing and maintaining financial balance.

Prioritizing short- and long-term financial goals is critical to establishing and maintaining the balance between earning, spending, investing and insuring. Every female investor has a unique life, with her own needs, goals and lifestyle choices, along with unforeseeable events that can shape and alter her journey to retirement.

This “four behaviors” structure is flexible, and allows women to adjust their priorities when life events happen – such as a marriage or divorce, the birth of a child, a long-term illness, or a spouse’s death – and keeps the focus on achieving one’s targeted outcomes.

Earning and spending behaviors also shift depending on where investors are in their life cycle. For example, life insurance for a new parent is both highly important and an immediate need. For an older female investor, retirement savings and long-term care are also highly important and immediate.
Prioritize goals, create separate accounts

BNY Mellon Retirement advocates goals-based investing for all investors – women and men alike. This requires prioritizing goals by how timely and how important they are for each individual. Goals-based investing is based on behavioral finance studies where investors use mental accounting to imagine separate buckets of money dedicated to specific goals.

Rather than creating one general portfolio, we recommend structuring investments and savings into pools or subaccounts for specific purposes to make saving and investing easier. By breaking life’s savings goals into achievable sub-plans that aggregate to an overall investment and income portfolio, investors are more motivated to save and to stay on track for their retirement goals.

The illustration below shows how one female investor might prioritize goals in terms of importance and immediacy. Here you can see that a Rainy Day Account, Pension, Annuities, IRA and eventual Wealth Transfer are all deemed important; however, their immediacy varies.

Combine all accounts for one total portfolio

Once goals are prioritized, a financial advisor can help a female investor combine all accounts into one overall investment strategy.

We believe investors are better served working with a financial advisor who can help them develop a plan to achieve their targeted retirement outcome. Advisors can help quantify the target in terms of 1) more reliable sources of income, such as Social Security, pensions and annuities and 2) a total asset portfolio needed to provide additional retirement income and funds for legacy and other goals.

Women and their advisors can then use reverse planning to develop purpose-driven portfolios and a plan that flexibly integrates their earning, spending habits, investments and appropriate insurance to help protect against life’s unexpected events that could otherwise derail a well-lived plan.

For example only. Every individual will have his or her own set and ranking of priorities.

Different goals have different time horizons, which allow for different levels of investment risk.
The BNY Mellon Retirement mission is to make the road less arduous for all investors using an expert team of financial professionals armed with an array of tailored insights, programs, tools and products.

To learn more about the Knowing Women program, contact your financial advisor or your BNY Mellon Regional Consultant.

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