Living to 100—A Woman's Issue

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Abstract

This paper will focus on the situation of women at high ages and the implications of longer life for women. It will cover issues such as:

- Makeup of older population by age and marital status
- Issues related to payment of Social Security benefit by sex and marital status
- Impact of retirement plan trends and shift to individual responsibility
- Working in retirement and where women fit in
- Issues related to pension receipt
- Need for long-term care by sex
- Relationship of aging, changing fertility and changes in family structure
- Public policy issues related to older women and their security

Many older Americans are very happy in retirement, but for others retirement is a disappointment and a struggle. There are several different common pathways for a woman to get into trouble:

- Widowhood, particularly if benefits taken as a lump sum and used quickly or if husband was ill for a long time prior to death
- Divorce
- Not focusing on risk management
- Not saving enough
- Retiring too early
- Spending money too fast.

This paper focuses on long life. One of the key points about these pathways to trouble is that the problems do not become evident until an advanced age, when it becomes clear that there were not enough resources or that they were used too fast.

The focus will be primarily on the United States. This paper draws on and brings together work done by the Society of Actuaries in connection with the 2005 post-retirement risk survey, work from Social Security administration studies, U.S. government census data, WISER, the MetLife Mature Market Institute and papers funded by the Social Security research center.

1. Issues

1.1 Overview

As we reach old age, many factors affect us. Some are based on actions taken and decisions made much earlier in life. Both men and women are disadvantaged because Americans are not very good savers. A retirement program can be viewed as consisting of two time periods: a period when assets are accumulated and a period when assets are used. Careful planning is needed for both periods.

Issues that affect both men and women are as follows:

- Decline of the defined benefit pension system
- Growth of the defined contribution pension system with increasing reliance on stock and bond markets for retirement security
- Concerns about the financial stability of Social Security benefits and the form and level of benefits
- Public attitudes and knowledge that do not encourage very much saving for retirement.

The differences in the economic status of older men and women come from a number of different factors, including:

- Women's longer life spans
- The fact that women are more likely to be alone in old age
- Family decisions about the allocation and use of retirement assets
- Differences in work histories and earnings
- Failure to organize a comprehensive system to provide and finance long-term care
- The fact that women are much more likely than men to need long-term care in an institutional setting
- Failure of many families to secure adequate life insurance on the main breadwinner, if there is a main breadwinner
- A Social Security system that works very well for a single-earner family with a dependent spouse, but much less well for various combinations of dual-earner families
- The same women who have to work hard as single parents to support children alone are often striving hard to make it in retirement since they had a very difficult time saving.

1.2 Women Live Longer

Women have longer average life spans than men. Married women are likely to outlive their husbands both because of their longer life spans and because they often marry older husbands. Historical and projected life expectancies for women and men are shown in TABLE 1.

TABLE 1
U.S. Life Expectancies at Birth, Ages 65 and 85

Males	**1900**	**1920**	**1940**	**1960**	**1980**	**2000**	**2050 projection**
Birth	46.4	54.5	61.4	66.7	69.9	74.0	79.4
Age 65	11.4	11.8	11.9	12.9	14.0	15.9	18.9
Age 85	3.7	4.0	4.1	4.6	5.1	5.2	6.3
Females							
Birth	49.0	56.3	65.7	73.2	77.5	79.4	83.2
Age 65	12.0	12.3	13.4	15.9	18.4	19.0	21.4
Age 85	4.0	4.1	4.4	5.1	6.3	6.4	7.5

Source: *U.S. Social Security Administration Periodic Life Tables 1900–2100*

Often for retirement planning, individuals will focus on average life expectancy without considering the variability of life expectancy. As illustrated in the above table, the greater life expectancy of women coupled with the trend of increasing life expectancy emphasizes the importance for women to factor in this variability for resource planning including long-term health care needs.

1.3 Work and Retirement in the Third Age

For many years, retirement ages were dropping, but they have started to climb again. It has also been recognized that for more than half of the population retirement is really more of a process than a single event. That is, this part of the population will have one or more bridge jobs after leaving a career job and before ultimately leaving the labor force. (A career job must last at least 10 years, and bridge jobs last less than 10 years.) Bridge jobs may be full-time or part-time, and often they reflect an individual's efforts to build a personal phased retirement program. A new study of bridge jobs found that 60 percent of both men and women who held a full time job after age 50 and made a transition held a bridge job prior to leaving the labor force. (***Source:*** *Down Shifting: The Role of Bridge Jobs After Career Employment*, by Kevin E. Cahill, Michael D. Giandrea and Joseph F. Quinn, Issue Brief Number 6, April 2007. The Center on Aging and Work, Boston College.)

Work and retirement in the third age often drive old age security. Timing of retirement is very important in determining how much income will be available. The income available from Social Security, a traditional pension plan or withdrawals from an asset account generally increase if the start date is delayed because:

- Social Security adjusts benefits by age of benefit receipt from age 62 to 70 to reflect the expected period of benefit payout. The age of claiming benefits affects the worker's benefits and any family benefits for those who get benefits based on the worker's record. This is discussed further later in the paper.
- Defined benefit plans usually adjust benefits by age of benefit receipt, increasing them to reflect more years of credited service, and adjusting them to reflect the age of receipt. (In some cases, there is no downward adjustment for earlier receipt of benefits. For example, unreduced benefits may be available at age 62 with 30 years of service. This occurs in cases where a plan sponsor decides to provide extra benefits to encourage or enable earlier retirement or to encourage longer service to reach the point of unreduced benefits.)

- When defined contribution plan assets are allowed to accumulate longer before they are used, they earn more investment income and a larger pool of assets is accumulated (unless there is adverse investment experience).
- If an individual starts using assets at a later age, then there is a shorter period over which they must be spread. Of course, virtually no one knows how long that period will be when they start using the assets. The assets can be used to purchase a life annuity or a joint and survivor annuity, which guarantees payments for life. The cost of buying an annuity per $1,000 of annual income declines with increasing age because of the decline in expected period of payment of the annuity.

Note that when assets are taken early and used up fast, it is the people who live a long time who ultimately run the risk of being left only with Social Security.

1.4 Changing Patterns of Retirement between Generations

There are significant differences in the way women are expected to retire and build retirement security in future generations. Some of these differences apply to both men and women, but others are much more important for women.

A study looked at mothers and daughters in 2007. (***Source:*** *It's Not Your Mother's Retirement: A MetLife Study of Women and Generational Differences*, MetLife Mature Market Institute, May 2007.) Some key findings:

- Daughters are likely to work longer than their mothers, or forever. Just 13 percent of daughters expect to retire before the age of 60, compared to 41 percent of their mothers. Daughters are more than twice as likely to say that they will retire after the age of 65 (51 percent) when compared to when their mothers say that they actually retired at such an age (21 percent). Note that this finding of expecting to work longer is similar to other studies, and that this expectation is unlikely to be fully realized. About 40 percent of Americans retire before they expected to.
- Daughters are more likely to face financial adjustments, and these adjustments may be more challenging for them. Mothers grew up in the culture of the depression and period after the depression, and were more likely to appreciate the value of savings than today's workers.
- Daughters are more likely to have more debt than their mothers. Two-thirds of mothers report having less than $10,000 of consumer debt compared with less than half of their daughters. Daughters were twice as likely as mothers to have debt of $25,000 or more.
- Both mothers and daughters predict that the quality of the daughter's retirement will be better.
- One-third of mothers say the quality of their retirement is less than excellent, and the biggest reasons are financial problems and personal or spouse health problems.
- Mothers and daughters predict that the daughters will have a more active and interesting retirement. Some of the activities they are more likely to spend more time on include further education, traveling and managing finances and investments. The study did not focus on how activities are likely to change during retirement and the implications for these groups as they reach very high ages.

Other studies have looked at the boomers compared to the cohort before them. Boomer women are more likely to have worked for more years outside of the home, to have more education than the prior group and to be divorced. As a cohort, they married later and had children later. While they expect to retire later than the groups before them, it remains to be seen how this will play out.

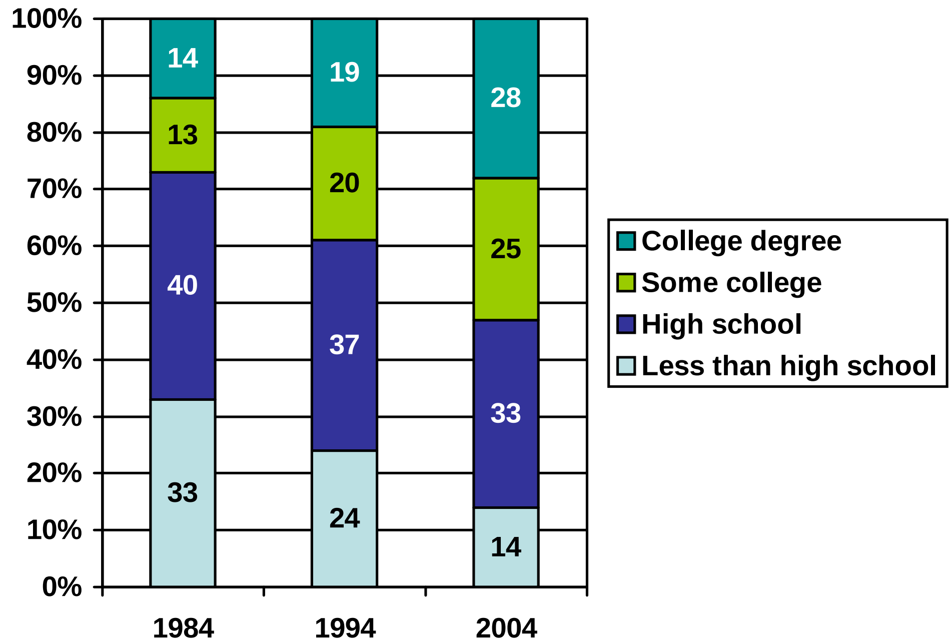
A recent analysis shows that the group nearing retirement today is better prepared than the cohort before them, and shows that for the future there are several pointers to show that the group of women reaching very high ages should be better off. (***Source:*** *Selected indicators of well-being for people aged 55-64: 1984, 1994, and 2004* by Howard M. Iams, John Phillips, Lionel Deang and Irena Dushi, March 2007 paper presented to the Population Association of America.)

This paper shows gradually increasing education, more work history for women and better preparedness for retirement in general. Things to think about that go in the other direction are the greater likelihood of divorce, the fact that non-Hispanic white women have fewer children, and women with fewer children are less likely to have family caregivers late in life.

The data on educational attainment (for both sexes) combined is shown in EXHIBIT 1.

EXHIBIT 1

Educational Attainment of People Aged 55-64

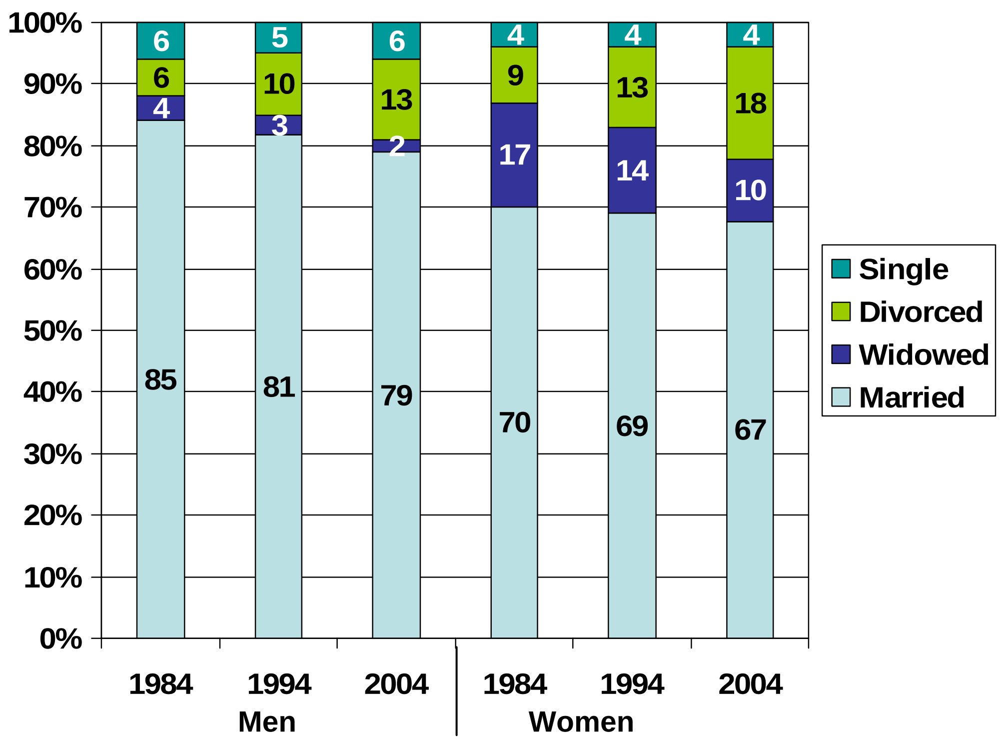


Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement. Analysis presented in, *Selected indicators of well-being for people aged 55-64: 1984, 1994, and 2004* by Howard M. Iams, John Phillips, Lionel Deang and Irena Dushi, March 2007.

Marital status affects life today and in the future for the 55-64 year old group, when they retire and how they fare afterwards, and also how they will do many years later, if they live to very high ages. Marital status affect people's lives in many ways, including living arrangements, income, wealth, availability of caregivers and overall health status. Marital status also affects access to future retirement income at high ages from auxiliary spouse and survivor Social Security benefits, survivor pension benefits and couple income sharing.

EXHIBIT 2

Marital Status of the Population Aged 55-64, by Sex



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement. Analysis presented in *Selected indicators of well-being for people aged 55-64: 1984, 1994, and 2004* by Howard M. Iams, John Phillips, Lionel Deang and Irena Dushi, March 2007.

Changes in marital status affected both men and women, and were parallel in that there was a decline in the proportion married and an approximate doubling of the percentages divorced. There was a decline in the percentage widowed for both sexes. As we think about the population at the very high ages in the future, we would expect to see an increase in the percentage divorced, including the percentage divorced for a long time. It is difficult to predict what this might mean for the percentage widowed.

1.5 The Situation of Older Women

At very high ages, women are a very high percentage of the age group, and they are much more likely to be living alone than elderly men. Also, there are a lot of widows at these ages. The percentage of widows is higher than might be expected based on pure demographics, because women live longer than men, men marry younger wives, and men are much more likely than women to remarry after a spouse dies. The population balance leaves men with many more choices. It is not unusual for women to be widowed for 15 to 20 years.

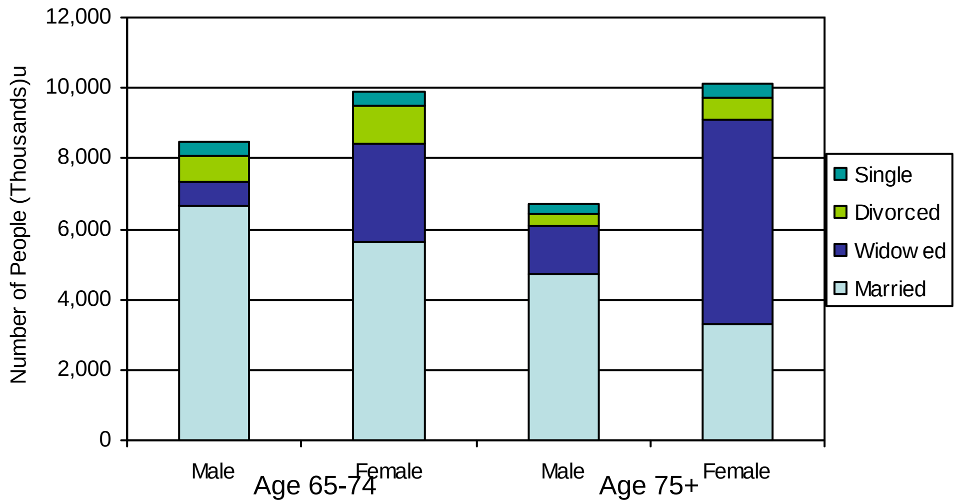
TABLE 2
Percentages of Population Widowed, Divorced, Separated or Single

Age	65–74	75–84	85 and over
Men	22.1%	28.3%	44.9%
Women	45.5%	64.7%	85.9%

Source: Center for Retirement Research at Boston College, *Just the Facts on Retirement Issues*, April 2004.

Marital status for elderly men and women is shown in EXHIBIT 3.

EXHIBIT 3
Marital Status by Age & Sex, United States 2005



Source: U.S. Census Bureau, *Statistical Abstract of the United States: 2007, Table No. 55*

Poverty and near-poverty rates are much higher for older women alone than for older married couples—four to five times for poverty rates in the United States, but this is a problem in many countries. The Center for Retirement Research at Boston College cites the percentage of non-married U.S. women who are poor or near poor in the year 2000 by age as: 27 percent at 65-69 increasing to 33 percent over age 85 as shown in TABLE 3.

TABLE 3
The Percentage of Non-married Elderly Women Who are Poor or Near Poor by Age

Age	Percent Poor or Near Poor
65-69	27%
70-74	29%
75-79	30%
80-84	27%

85 and older	33%

Source: Center for Retirement Research at Boston College, *Why Are So Many Older Women Poor, Just the Facts on Retirement Issues,* April 2004, page 5.

When women are homemakers during much of their adult life, or if the work/family responsibility is split so that they work less outside of the home, they do not earn the right to pension benefits based on their own work at nearly the rate that men do. They should reasonably get a share of the pension benefit earned by the family based on their contribution to the family. Under defined benefit plans with a survivor benefit, this works reasonably well on widowhood. Under U.S. Social Security, this works well for widowhood for a single earner family, but dual earner families are not treated equitably as compared to single earner families. When benefits are paid as a lump sum, results depend on how the family makes decisions.

1.6 Social Security and Women's Security

Social Security is a major national program in the United States providing retirement, disability and survivor benefits. Benefits are provided to workers and family members. Forty percent of elderly women alone get more than 90 percent of their income from Social Security. Women get Social Security benefits in a variety of different ways.

1.7 Work Histories Affect Retirement Benefits for the Rest of Life

The work histories of today's elderly women are such that they are likely to have lower pension and Social Security benefits than men. Some women have never held jobs that entitled them to pension credit, or remained in jobs long enough to have vested benefits. Women working today still have lower average earnings than men, so on an aggregate basis, this will not change for many years. The median number of years for workers retiring in 2000 was 44 for men and 32 for women. The median earnings of full-time workers in 2002 were $38,884 for men and $29,680 for women. (***Source****:* Center for Retirement Research at Boston College, *Why Are So Many Older Women Poor? Just the Facts on Retirement Issues,* April 2004, page 2.) The differences in work history between men and women are narrowing. In 2000, women had worked in covered employment for 73 percent as many quarters as men over their careers. By 2004, this 73 percent had increased to 80 percent. (Source: unpublished Social Security data.)

Differences in work history continue today. WISER's Web site (as of May 2007) lists five top retirement challenges for women:

1. Two out of three working women earn less than $30,000 per year.
2. Nine out of 10 working women earn less than $50,000 per year.
3. Half of all women work in traditionally female, relatively low paid jobs without pensions.
4. Women retirees receive only half the average pension benefits that men receive.
5. Women's earnings average $0.77 for every $1 earned by men—a lifetime loss of over $300,000.

1.8 Issues Affecting Single Persons vs. Couples

It takes about 75 percent to 80 percent of what a couple needs for an individual alone to maintain the same living standard.

Social Security is virtually all of the money that more than four out of 10 women alone over age 65 in the United States have. This number may increase over time with fewer defined benefit plans and more defined contribution plans and lump sums. However, increased work history among women should reduce the number. The potential problem with lump sums is that often they will be spent earlier in retirement, and that widows will be left with few assets. When an individual is receiving Social Security benefits based on a prior spouse's earnings, that amount will never be more than two-thirds of what the couple received.

Net Social Security benefits will also be relatively lower in the future when it is considered that many people continue to claim benefits at 62, in spite of the fact that the age 62 benefits are being reduced gradually due to the increase in Social Security normal retirement age. (When Social Security normal retirement age was 65, the reduction in the age 65 benefit for claiming at the earliest age was 20 percent, and the net benefit 80 percent. When the normal retirement age reaches 67, the reduction will be 30 percent and the net benefit will be 70 percent.) In addition, Medicare premiums are rising, leaving a smaller benefit available for other expenses after payment of Medicare premiums.

The problem of running out of money will often be much more common and worse at higher ages. At that point, people are further away from retirement. This problem is likely to fall heavily on women who are most likely to be widowed. Also, if one partner in a couple has a serious illness, the couple's resources are likely to be used for that illness.

There are provisions in law about Social Security and pensions on divorce, and sometimes they work out well and sometimes they do not. The U.S. Social Security system provides for a divorced spouse if married for 10 years before divorce to get a benefit equal to the spousal benefit. So if the former spouse is still alive, the divorced spouse (if not remarried) would get the greater of half of the former spouse's benefit, or their own benefit based on their work history. If the former spouse is not alive, the 50 percent goes up to 100 percent. This makes no sense in today's world, and is linked to the world of lifetime alimony, which disappeared long ago.

Divorce is projected to increase.

2. Claiming Social Security Early or Late?

2.1 Overview

For many years, common advice has encouraged individuals to claim Social Security early. Generally, this advice was given without considering the value of spouse and widow benefits.

The full retirement age for worker or spouse benefits is 65 for people born in 1937 or before, and 67 for people born in 1960 or later. It increases from 65 to 66 for people born in 1938 to 1942, stays at 66 for people from 1943 to 1954, and increases from 66 to 67 gradually for people born in 1955 to 1958.

Today, there is an increasing focus on the value of claiming Social Security later, particularly in a family where there is a significant difference in benefits between the higher and lower earner in a couple.

The value of claiming benefits later has also shifted as several different things have happened:

- Life spans have increased so benefits are likely to be paid longer—and the added benefit is based on the benefit at time of claiming.
- As noted above, with the changes in Social Security's normal retirement age, when the retirement age is age 67, the age 62 benefit will be 70 percent of the benefit at normal retirement age (not 80 percent as it was when the normal retirement age was 65).
- The annual increases in benefits between normal (or full) retirement age and age 70 have also increased. They vary by year of birth and are 5.0 percent per year for persons born in 1931-32 and they gradually increase to 8.0 percent per year for persons born in 1943 or later.

It should be noted that the larger the difference between the age of the higher and the lower earning spouse, the greater the expected value of surviving spouse benefits.

2.2 Social Security Age/Income Tradeoffs

A recent analysis shows how benefit values progress for an individual who claims Social Security at different ages. If benefits are claimed later, they are not received during the earlier years, but the amount collected each year is larger. For example, in the case shown below, if the individual dies at age 75, she would have collected benefits of $15,888 plus cost of living increases for 13 years if she claimed them at age 62 and $29,436 plus cost of living increases for five years if she claimed benefits at age 70. If she died at 90, the periods would have been 28 and 20 years respectively. This data shows that if an individual lives to age 85, it is better from a long-term total value perspective to claim Social Security benefits at age 70 rather than earlier. The benefit of claiming Social Security later increases the later the age at death. For someone who dies at age 80, the total lifetime value of Social Security benefits is greater if benefits are claimed at age 66 rather than 62 or 70.

TABLE 4

Social Security Age/Income Tradeoffs—Continued Work to Age of Claiming

Initial Annual Income and Cumulative Value of Benefits Paid

Individual currently age 55 and earning $75,000 per year

Start age for benefits	**Early retirement Age 62**	**Full retirement Age 66**	**Late retirement Age 70**
Initial annual income	$15,888	$21,768	$29,436
Value at age 70	**$127,104**	$87,072	$0
Value at age 75	**$206,544**	$195,912	$147,180
Value at age 80	$285,984	**$304,752**	$294,360
Value at age 85	$365,424	$413,592	**$441,540**
Value at age 90	$444,864	$522,432	**$588,720**
Value at age 95	$524,304	$631,272	**$735,900**
Value at age 100	$603,744	$740,112	**$883,080**

Source: Fidelity Research Institute, *Beyond Conventional Wisdom*, Report Number 1, January 15, 2007, Table 2A

Note: The calculations in this table assume that the cost of living increase and real rate of return are equal. Benefits and values are shown in today's dollars. They use a hypothetical earnings history, but the issues surrounding late claiming are universal. The largest value at each age is bolded.

The Fidelity analysis also provided results for the same earnings history, but assuming that the individual would stop working at age 62, and claims benefits at 62, 66 or 70. The relative values are similar, but the differences are not as large at the high ages.

TABLE 5

Social Security Age/Income Tradeoffs—No Work after Age 62

Initial Annual Income and Cumulative Value of Benefits Paid

Individual currently age 55 and earning $75,000 per year

Start age for benefits	**Early retirement Age 62**	**Full retirement Age 66**	**Late retirement Age 70**
Initial annual income	$15,888	$21,181	$28,821
Value at age 70	**$127,104**	$84,736	$0
Value at age 75	**$206,544**	$190,656	$144,103
Value at age 80	$285,984	**$296,576**	$288,206
Value at age 85	$365,424	$402,496	**$432,309**
Value at age 90	$444,864	$508,416	**$576,412**
Value at age 95	$524,304	$614,336	**$720, 515**
Value at age 100	$603,744	$720,256	**$864,618**

Source: Fidelity Research Institute, *Beyond Conventional Wisdom*, Report Number 1, January 15, 2007, Table 2B.

Note: The calculations in this table assume that the cost of living increase and real rate of return are equal. Benefits and values are shown in today's dollars. They use a hypothetical earnings history, but the issues surrounding late claiming are universal. The largest value at each age is bolded.

These analyses are based on using the same value for a real rate of return and a cost of living increase. They were tested to see if changing the assumptions would change the conclusions. Over a range of scenarios, the values for payments from benefit claiming through age 85 were still greater the later the retirement, and the difference was larger for benefit claiming through age 100. Some examples are shown in TABLE 6 and TABLE 7 below:

TABLE 6

Ratio of the Value Benefits Paid from Age of Claiming to Age 85

Depending on Age when Benefits Started

Assumption for real rate of return	**Ratio of value from claiming to age 85 if benefits claimed at 66 to value if benefits claimed at 62**	**Ratio of value from claiming to age 85 if benefits claimed at 70 to value if benefits claimed at 62**
2%	111%	116%
3%	113%	121%
5%	117%	130%
7%	121%	138%

Note: Assumes 3 percent cost of living increase and varies real rate of return.

TABLE 7

Ratio of the Value Benefits Paid from Age of Claiming to Age 100

Depending on Age when Benefits Started

Assumption for real rate of return	Ratio of value from claiming to age 100 if benefits claimed at 66 to value if benefits claimed at 62	Ratio of value from claiming to age 100 if benefits claimed at 70 to value if benefits claimed at 62
2%	120%	140%
3%	123%	146%
5%	127%	157%
7%	130%	165%

Note: Assumes 3 percent cost of living increase and varies real rate of return.

It is the opinion of the author that the greater value of late claiming for those who live at age 85 and beyond is very important, and needs to be considered. This value should hold up over a range of assumptions.

Note that in considering this decision, Social Security gives credit for additional years of work as people work longer up to 35, and then no further credit is given after 35 years. Also note that if someone is continuing to work and claims Social Security prior to Social Security full retirement age, that there is a reduction in Social Security benefits in accordance with the earnings test. For 2007, you can earn up to $12,960 and there will be no reduction in Social Security benefits. For every two dollars you earn over this amount, there is a one dollar reduction in benefits.

Note that these calculations are for one person only. For a couple with benefits based on the earnings of one spouse, spouse benefits should also be considered, and the difference in benefits actually paid will reflect the length of both lives. The amount of the difference depends on the individual situation. Also note that where there is a higher and lower earning spouse, and where the lower earning spouse's benefit is less than one-half of the benefit of the higher earning spouse, the best strategy (not considering other factors) may be for the lower earning spouse to claim benefits early and the higher earning spouse to claim benefits later (see TABLE 8.) This will vary by couple and needs to be evaluated.

The examples in TABLE 8 illustrate benefits while both are alive. Survivor benefits must also be considered. Survivor benefits are based on the worker's PIA and are adjusted for the age of the survivor at the time of claiming spouse benefits. Survivor benefits are payable at ages 60 or later, or earlier for disabled survivors and survivors with dependent children.

TABLE 8

Social Security—Claiming Benefits Early and Late with Example

Time of claiming	Worker	Spouse with no work history	Spouse with work history
Benefit at Full Benefit Age from own work history	PIA(W) ($2,000/mo)	None	PIA(S) ($700/mo)
Full retirement age for worker and spouse	67	67	67 and 67
Delayed retirement credit considered in calculation	Yes	No	Only for worker benefit
Benefit adjusted for early claiming	Yes	Yes	Yes, for both parts
Claim Benefits Before Full Benefit Age	Benefit (PIA(W)) reduced for longer period of payment—maximum reduction is 30% when full benefit age reaches 67 Benefit at 62 once full 30% applies = $1,400	50% of PIA(W) adjusted for age when benefit starts Reduction at age 62 is gradually increasing to 35.417% Benefit at 62 once full reduction reached is 50% of $2000 times .64583 = $645	Benefit (PIA(S)) reduced for longer period of payment—maximum reduction is 30% when full benefit age reaches 67 + excess of 50% of PIA(W) over PIA (S) over PIA (S) adjusted for the age the spouse benefit starts Benefit at 62— Own benefit = $490 Spouse benefit = .64583 times (50% of $2,000-$700) = $194 Total = $684
Claim Benefits at Full Benefit Age	Full Benefit Calculated according to formula Benefit is $2000 per month	50% of the worker's benefit Benefit is $1000 per month	Benefit (PIA(S)) + excess of 50% of PIA(W) over PIA (S) over PIA (S) adjusted for the age the spouse benefit starts Benefit at 67— Own benefit = $700 Spouse benefit = (50% of $2,000-$700) = $300 Total = $1,000
Claim Benefits after Full Benefit age and Before 70	Benefits increased for shorter period of payment—maximum increase (Delayed Retirement Credit) is 8% per year for people born after 1943 Benefit = $2,000 times 1.24 = $2,480	Benefit based on the spouse's benefit at full benefit age (without any increase for late claiming) Benefit is $1000 per month	Benefit based on own benefit including adjustment for late claiming and additional spouse's benefit at full benefit age Benefit = 1.24 times $700 = $868 plus Spouse benefit = (50% of $2,000-$868) = $132 = $1,000

Also note that these calculations do not take into account any difference in taxation depending on when benefits are claimed. Under present law, depending on total income, Social Security benefits can be tax free, 50 percent taxable or 85 percent taxable. This could of course change, and these amounts are not indexed. Benefits are taxed at 50 percent for amounts of income over $25,000 for single persons and $32,000 for married couples, and at 85 percent for amounts over $34,000 for single persons and $44,000 for married couples. Some analyses of the issue of late claiming point to the fact that for moderate income and asset households with little regular income later on in life other than Social Security, there is an additional benefit to late claiming from improving the tax status of Social Security income. If the couple has a Roth IRA and a regular IRA, that couple might be better off to use the regular IRA assets before claiming Social Security and the Roth IRA amounts later. This is due to the interaction of the taxation of the IRAs and Social Security.

Considerations in claiming benefits may go beyond the current structure of the benefits. Another factor considered in discussions about late claiming of benefits is the possibility that benefits may be reduced later by new legislation so expected benefits could be lost. For example, if cost of living increases are reduced, that would reduce the difference in benefits based on later claiming. It seems unlikely that there will be major changes for people already at retirement age. It seems much more likely that major changes would affect those further from retirement, but this is a chance taken if claiming is delayed.

There is another consideration in making this choice, not often mentioned in traditional discussions of this matter. Social Security should be thought of within the context of the total resources available to the individual for retirement. Delaying Social Security is effectively like purchasing more annuity income. Individually purchased lifetime annuities are relatively expensive because they include expense charges on a retail basis for the individual purchase and they generally are based on the mortality of a healthy population, with an above average life span. The reason for this is that most of the people who choose to buy individual lifetime annuities are healthier than the population at large, so the risk pool reflects the buyers of these arrangements. In addition, Social Security is indexed for inflation, whereas individual annuities usually are not. One can think about postponing the receipt of Social Security as being like buying some annuity income.

If someone decides to use this strategy, the “purchase” of the added Social Security income may come from different sources. They include working longer or using assets in an Individual Retirement Account earlier.

3. Managing Retirement Risks

3.1 The 2005 SOA Retirement Risk Survey Results by Gender

The SOA Retirement Risk surveys tell us a lot about how the public perceives retirement risk and provides insight about some of the longer term potential problems. The survey shows gaps in the understanding of risk, and focuses on health care financing, inflation and long-term care as the biggest concerns of retirees and pre-retirees.

Overall, the differences in responses to the risk survey between men and women are minor. Among pre-retirees, women are more likely than men to worry about inflation, not being able to afford long-term care, maintaining a reasonable standard of living, depleting all savings and investments and being left only with Social Security, and not being able to rely on family to provide assistance. They are also more likely to say they are very concerned about having enough money to pay for adequate health care. In addition, pre-retiree women are more likely than men to say that a likely consequence of living five years longer than expected would be to exhaust all of their savings.

The survey also focuses on how well longevity risk is understood and whether people can estimate life expectancy. Women, on average, tend to offer higher estimates of average and personal life expectancy. These estimates are consistent with their longer life expectancy, on average, than men. However, male pre-retirees are more likely than female pre-retirees to overestimate personal life expectancy.

Women and men generally attempt to manage risk similarly, although women are more likely than men to say they have cut back on spending in an attempt to protect themselves financially as they get older. Retiree women are more likely than retiree men to indicate they have supplemental health insurance, while pre-retiree men are more likely than pre-retiree women to report having purchased long-term care insurance.

It should be noted that subgroup differences are extremely sensitive to sample size. It is possible that a survey with a larger sample size may have revealed different results.

Even though the perceptions of men and women are similar, the resulting impact of their behavior is different because their overall situation differs. The expected length of retirement for men and women differs significantly because women live longer and they have smaller resources. Also, among married couples, women have traditionally been younger on average than their husbands, making it even more likely that women will spend additional years in widowhood. In the 2000 U.S. Census, 54.6 percent of women aged 75-84 were widows; at age 85 and above, 71.6 percent were widows.

The employment and wage histories of men and women in America are also quite different, and historically have been disadvantageous to women, so that they are likely to have significantly lower pension and Social Security benefits than men. However, women are also more likely to have meaningful survivor benefits. They are also more likely to need long-term care provided by a paid caregiver or in a nursing home.

3.2 Special Issues for Women

As part of the SOA Retirement Risk surveys, the SOA has examined a range of risks in retirement. Americans at older ages face these risks and comments are made with regard to how they impact women (see TABLE 9).

TABLE 9

Retirement Risks for Women

Risk	Potential Range of Risk
Outliving Assets	At age 65, average life expectancy is 17 years for American men and 20 for women. This means that half those retiring at 65 will survive longer. Thirty percent of all women and almost 20% of men age 65 can expect to reach 90. [1]
Loss of Spouse	Because women have traditionally been younger than their spouses, periods of widowhood of 15 years or more are not uncommon. For many women, the death of a spouse is often accompanied by a decline in standard of living.
Decline in Functional Status	The cost of care as older people become frail may amount to millions of dollars for a couple over their lifetimes. Nursing home care costs may exceed $70,000 a year per person. [2] Care may be provided at home, in adult day care centers, assisted living facilities or nursing homes.
Health Care and Medical Expenses	Medical costs for retirees over 65 not covered by Medicare may exceed $1 million for a couple over their lifetimes.
Inflation	Over the period 1980–2005, annual inflation in the United States for all items has ranged from 1.1 percent to 8.9 percent, and has averaged 3.3 percent. For medical care, the annual average has been 6.4 percent. [3] Inflation has generally been much higher outside North America.
Investment Risk	The volatility of stock market has been significant. Over the period 1987–2005, annual returns on the S&P’s 500 Index averaged 9.4 percent, but have ranged all the way from -23.4 percent (2002) to +34.1 percent (1995).
Premature Retirement Risk	A significant percentage of people retire sooner than they expected to either because of job eliminations or health reasons.

1. U.S. Life Tables, 2002
2. Expressed in 2005 Dollars
3. Consumer Price Indices, U.S. Bureau of Labor Statistics

Source: Exhibit is based on exhibit included in *Key Findings and Issues: The Impact of Retirement Risk on Women*, 2005 Risks and Process of Retirement Survey Report, Society of Actuaries, 2006.

The study also includes suggested products that offer options for risk management (see TABLE 10). This list is provided without a specific recommendation of any of them.

TABLE 10
Products for Risk Management

Risk	Products for Risk Transfer
Outliving Assets	Annuities, including joint and survivor annuities and deferred annuities commencing at higher ages, such as 75, 80 or 85
Loss of Spouse	Joint and survivor payment options in pension plans; joint and survivor life annuities; life insurance
Decline in Functional Status	Long-term care insurance that helps pay for the cost of caring for disabled seniors. Many continuing care retirement communities (CCRCs) cap monthly costs for assisted living and skilled nursing care, but are subject to their own financial risks.
Health Care and Medical Expenses	Medical insurance Medicare supplement insurance
Inflation	Annuity products with cost-of-living adjustment Products with established increasing payments
Investment Risk	Annuities that guarantee lifetime payouts Investment products with principal guarantees Investment products with minimum return guarantees
Premature Retirement Risk	Early enrollment and consistent contributions to IRAs, 401(k)s and other savings/investment vehicles.

Source: Exhibit is based on exhibit included in *Key Findings and Issues: The Impact of Retirement Risk on Women*, 2005 Risks and Process of Retirement Survey Report, Society of Actuaries, 2006.

4. How Financial Security Issues Should Be Addressed

As discussed, there is a wide range of risks facing individuals as they plan for retirement and a range of individual strategies and society issues to be considered in building a better future.

Both men and women are disadvantaged because Americans are not very good savers. A retirement program can be viewed as consisting of two time periods: a period when assets are accumulated and a period when assets are used. Careful planning is needed for both periods. In the long run, effective action to address the issues is a combination of individual action based on today's opportunities, employer action, societal action and policy action that will lead to good opportunities in the future. Actions throughout life affect people as they reach the highest ages.

As stated earlier, the fundamental reasons for the differences in pension and Social Security benefits between men and women are differences in work histories, types of jobs and earnings levels. The differences in Social Security benefits also relate to the interaction of the system structure with family and work patterns. These differences need to be addressed on a societal level through focus on employment patterns, economic sharing in the family and spousal rights. It will be important to understand the impact of spousal and family rights across a wide range of programs and modernize responses to these rights. More than half of women in 2020 are projected to get at least part of their Social Security benefits based on the earnings of their husbands, The spousal benefit issues need to consider married couples, divorced couples, individuals with multiple marriages and unmarried couples. We must look more broadly to find avenues to better security for women.

4.1 Pensions and Employment

Retirement security issues are far-reaching and extend to many different areas in people's lives. Addressing them requires considering a combination of policy, employer and individual initiatives.

From an individual point of view, enhancing pension benefits can come from several actions at different points in the life cycle:

- Selecting a job with good pension benefits.
- If the family makes choices that mean that the husband's job is the one with better pension benefits, remember that those benefits need to provide for both spouses.
- Not retiring too early. If assets or benefits are not adequate, keep working longer to build up benefit rights.
- Carefully focus on payout options. For married couples, remember that survivor benefits will be important to the widow in many families. Where a lump sum is selected, roll it over into an IRA or other tax-qualified plan and do not use the funds too early.

Broadly from a policy perspective, there are critical things to keep in mind:

- Create enhanced options for future employment of women as they age with work options that fit the needs and preferences of maturing workers.
- Recognize the value and importance of employer-sponsored pension plans (both defined benefit and defined contribution plans), encourage employers to offer pension plans and maintain a strong private pension system.
- Develop a sound national retirement security policy. As part of this policy, it is important to build and maintain a strong private pension system by supporting employers who offer pension plans, and by encouraging other employers to offer pension plans.
- Encourage employers to offer savings plans as individuals are much more likely to save when their employer sponsors a program, and even more likely to save if a match is included. Design these plans so that they will work well for people who let automatic choices apply. Automatic provisions to be considered include automatic enrollment, automatic increases in savings, default investment options, and methods of distribution of benefits.
- Reduce burdens on employers. The system is under a lot of strain because of instability and complexity of the requirements imposed on plan sponsors today. Adding requirements which may weaken the system overall are not helpful on balance.

4.2 Social Security

From an individual point of view:

- Carefully review the strategy with regard to the timing of benefit claiming. Later claiming is a better strategy for many people.

- For a couple with very unequal earnings, test various combinations of benefit claiming. The best strategy may be late claiming for the high earner and early claiming for the low earner.

From a societal perspective, a multi-faced approach is needed for Social Security.

- Make the changes needed in Social Security to assure that we will have a strong Social Security system going forward.
- As a parallel step, focus on spousal rights and modify Social Security so that it will better handle a variety of family patterns, with particular attention to see that the needs of two-earner families and of divorced women are handled reasonably.
- Increase survivor benefits for dual earner couples, probably trading off for lowered spousal benefits while both spouses are alive.
- If individual accounts were a part of Social Security, many decisions would be needed to determine how to handle spousal benefits and whether to require that benefits be paid in the form of an annuity.
- Decouple benefits to divorced persons from continued benefits to married couples.

The author's preference for changes to the Social Security system is to start by increasing retirement ages. The author's preference is to limit private accounts to supplemental accounts.

4.3 Other Benefits

On an individual level, it is important to have a plan for financing health expenses and long-term care. For many people this will be an area where the use of risk protection products is particularly important.

From a societal point of view, in addition to pensions, savings plans and Social Security, other public and private programs are important for women.

- Ensure that the social safety net programs are strong and serve as a way to protect those women who will be poor in old age and do not have the family earnings history to secure either pensions or Social Security.
- Ensure that the Medicare and supplemental health programs are on a strong footing. Medicare does only part of the job of providing health care for America's seniors and it has serious financial problems. Health care is a major need in retirement.
- Facilitating a strong long-term care system is very important for women. Continued focus is needed on the system for financing and providing long-term care.

4.4 Housing Wealth

Many women entering retirement now and in the future will have a considerable part of their assets in the form of housing wealth. While relatively few women have directly tapped this wealth for retirement in the past, more are likely to do so in the future. Housing costs are also the largest expense for many individuals and families, and for those who need to cut costs, represent the best opportunity to do this.

There is a need to better define and analyze the options with regard to how housing wealth can support retirement and provide the public with good information about this area.

This is potentially also an area for product improvement, both in housing itself, in financial vehicles, and in care and housing combinations. Housing options often combine some care and services with housing. In the case of the Continuing Care Retirement Community, they also combine some financing of care with housing. Reverse mortgages combine housing and financing. Paying off a mortgage is a way to reduce spending in the future. Home equity loans also permit the use of housing assets as a source of financial liquidity. For many Americans, housing is one of their largest assets as they reach retirement age.

4.5 Public Education

Personal decisions are very important for security in old age. Decisions made long before old age is reached can be very important in security later. In spite of this, many people are unaware of how decisions will affect them and are ill equipped to make needed decisions. Education will be critical in helping prepare women to make decisions about when to retire, how to use assets, what financial security products to buy, whether they need to save more now, etc. There are big gaps in knowledge.

- Increase public awareness of the importance of saving, increase savings levels and improve the financial literacy of the savers.
- Provide better public education in financial planning including planning for contingencies such as death and divorce.
- Provide information to help individuals understand the impact of decisions about taking jobs, leaving jobs, getting married, getting divorced, etc.
- Going beyond those in mid and retirement ages, start education early so that financial literacy including basic math, household finance and the time value of money are part of getting a high school diploma.

4.6 Holistic Focus on Security for Widows and Divorced Women

Many widows need better protection and planning for the time they will be alone. There are tradeoffs between different methods of providing protection to surviving spouses, including the use of survivor benefits in pensions, setting aside assets, providing life insurance and providing long-term care insurance. To enhance this protection:

- Help women understand these opportunities and use them well.
- Encourage employers to support these benefits.
- Focus on these issues in public policy.

Women moving into retirement today and in the future are more likely to be divorced than the women before them. Comments with regard to spousal rights are important to this group. Generally, women also need to focus on longer as well as shorter term issues in divorce planning and implementation.

5. Summary

Longer life spans are a measure of progress, but they also present challenges, particularly to women. This paper reviews the challenges and issues facing women, and it has offered some solutions and suggestions. It has demonstrated that there are a wide variety of issues and they are intertwined. As life spans continue to increase, it will be important to focus on these issues.