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Easing a Widow's Hardship

By **Kerry Pechter** Wed, Feb 10, 2010



It's an accepted fact that women tend to outlive their husbands. In the sunny condo villages of South Florida, widows know that a good man—that is, a man over 85 who still sees well enough to drive a car at night—is hard to find.

Plenty of statistics support this assertion. By age 62, 57% of Social Security recipients are women. By age 85, the number grows to 69%. At age 92, women outnumber men 2:1, according to Social Security's Period Life Table for 2005.

Because women generally marry men older than themselves, women outlive their husbands by an average of seven years, despite the fact that women's life expectancy at age 65 is only two or three years greater than men's, 19.7 to 17.0.

Rather than a blessing, long life can become be a curse, or at least a trial, for many women. Women's superior longevity makes them likelier to live their final years alone. That, in turn, makes them likelier to be poor and likelier to need nursing home care.

Advertisement For married women, there are even formal names for this risk: “death of spouse risk” or “widowhood risk.” And this risk is apparently underappreciated. Only 43% of pre-retirees “are somewhat or very concerned that their spouses might not be able to maintain the same living standard after their death.”

“I and many others are very concerned that there is not enough focus on planning for widowhood,” said Anna Rappaport, actuary and chair of the Society of Actuaries Committee on Post-Retirement

Needs and Risks.

In this third installment of *Retirement Income Journal's* series on financial risks in retirement, we'll focus on aging and gender. As Rappaport and others have pointed out, there are ways to help widows. But couples may have to work longer and/or change their Social Security claiming behavior. And success will depend largely on early and comprehensive personal financial planning.

Planning for the surviving spouse

Widowhood or surviving spouse issues will affect millions of couples. Even the affluent and their advisors commonly face decisions that will have a vital impact on the survivor's welfare—decisions about optimizing the use of Social Security benefits, defined benefit payouts annuities, and insurance.

The Social Security benefit structure works both for and against the interests of women, depending on their specific family situation. As the primary caretaker of children, women are still less likely to work as many years as men. And, while the pay differential has narrowed, women are still paid less than men on average.

Women are therefore likely to qualify for lower Social Security benefits than men. For the same reasons, women are less likely to have qualified for defined benefit pensions, or to have saved as much in defined contribution plans as men.

When a husband in a retired couple (both at least age 62) dies, his widow's Social Security benefit, if lower, rises to match his own. But his benefit ceases, so that the household income drops by the amount of the benefit of the surviving spouse.

The Social Security benefit structure does not work as well for widows in two-earner households. For instance, if a husband averaged \$50,000 in income during his working life and his wife did not work, their monthly benefit and the widow's survivor benefit will be significantly higher than that of a couple where both partners earned \$25,000 a year.

“The Social Security system works very well for a single-earner family with a dependent spouse, but much less well for various combinations of

Gender Effects in Social Security

- In 2007, the median full-time, year-round earnings of working-age women were \$35,000, compared to \$45,000 for men.
- In 2007, the average annual Social Security income received by women 65 years and older was \$10,685, compared to \$14,055 for men.
- In 2007, for unmarried or widowed women age 65 and older, Social Security accounted for 48% of their total income, compared to 37% for unmarried elderly men and 30% for elderly couples.
- In 2007, 47% of all elderly unmarried females receiving Social Security benefits relied on Social Security for 90% or more of their income.
- In 2004, only 24% of unmarried women aged 65 or older were receiving their own private pensions (either as a retired worker or survivor), compared to 30% of unmarried men.

dual-earner families,” Rappaport told RIJ.

Source: Social Security Administration

There's a relatively easy way to improve the Social Security benefit for the survivor, for those who can afford to apply it. By not claiming Social Security until full retirement age or later, husbands can significantly increase the amount that they receive in monthly benefits. If they die before their wives, their wives will therefore receive much more per month as widows.

The difference can be substantial. “A husband can increase the monthly benefit his wife gets as his survivor more than 20% if he claims Social Security at 66, not 62, and 60% if he claims at 70,” according to *The Social Security Claiming Guide from the Center for Financial Literacy at Boston College*.

“For couples where one or both expect to live a long time, late claiming often produces a much better result,” Rappaport said.

Most people, of course, claim Social Security as early as they can. Although this choice may appear to be shortsighted, many have no choice. Some are forced to retire by an illness or disability or the need to care for someone who is ill. Others lose their jobs in their late 50s and never find new ones.

To be able to delay Social Security, individuals would need to work longer, or they would need to mobilize other financial resources, such as 401(k) or 403(b) savings, during the first four to eight years of retirement. That might require an uncommon level of foresight and planning.

Some observers have recommended raising the earliest Social Security eligibility age to age 64 from age 62, or ensuring that the lower-earning spouse's survivor benefit is at least equal to the higher-earner's benefit at full retirement age, or requiring spousal consent before anyone can claim at age 62. But changing Social Security regulations is not likely to be easy.

Insurance, pensions and annuities

Because women live longer, they are more likely to require nursing home care than men. Of all nursing home residents, 71.2% are women, according to *The National Nursing Home Survey: 2004 Overview* published by the Department of Health and Human Services in June 2009.

The latest *Merck Manual of Geriatrics*, citing 1999 data, adds that “of people who reach age 65, 52% of women and 33% of men will spend some time in a nursing home. Of women who die after age 89, 70% have lived in a nursing home for at least some time.”

The mere fact of being the last-to-die makes surviving spouses more likely to need nursing home care but less able to pay for it. Writing in *Benefits Quarterly*, First Quarter 2007, Rappaport pointed out that “where one member of a couple requires long-term care in a nursing home, it is likely that the survivor will be impoverished after the first death.”

Alternately, she observed that a surviving spouse, unlike the first to die, doesn't have a spousal caregiver who could help care for her (or him) at home. The mere fact of being alone puts her at greater risk of needing nursing home care. And women are particularly vulnerable since they are less likely to remarry after the loss of a spouse.

When couples discuss the best use of their defined benefit pension payouts or when they consider buying an immediate or deferred payout annuity, they face decisions that will affect the surviving spouse. The fact that joint-and-survivor payouts are typically smaller than the payout rate for one person can make these decisions difficult.

In defined benefit plans, federal law requires that the normal form of benefit from a defined benefit plan be a joint and survivor benefit. But because the single benefit is likely to be higher, many are tempted to take that instead, leaving no income for the survivor. In practice, many people who have the option of taking lump sum benefits from defined benefit plans do so, giving up guaranteed lifetime income.

The same is true for annuities. The income from a joint-and-survivor immediate annuity contract is lower than the payout from a contract for a single man. According to a Vanguard quote, the difference can be \$552 to \$665, or more than \$1,200 per year. This encourages couples not to buy the joint-and-survivor contract—a decision that would deny the surviving spouse annuity income in later years.

Clearly, there are no easy or universal answers to the added risks and expenses that women bear simply by having longer life expectancies than men. Each couple's circumstances—their overall wealth, their health, and their legacy wishes—will be different.

But, for the country, an unappreciated social challenge is looming. The Baby Boom generation alone will produce more American widows than the world war that catalyzed it. As Brian Korb writes in January's *Journal of Financial Planning*, of the 25 million married boomer women, a projected 17.5 million, or 70%, will be widows someday.

Artwork Credit: Trustees of Boston College, Center for Financial Literacy.