

*Foreword by Teresa Heinz Kerry*

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# What Women Need to Know About Retirement

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A joint project of the Heinz Family Philanthropies and  
The Women's Institute for a Secure Retirement

Edited by Jeffrey R. Lewis and Cindy Hounsell

# Foreword

**By Teresa Heinz Kerry**

There is great beauty, and great valor, in every woman's struggle to leave her mark on this world. We all know the women and the stories: The bravery of a single mother juggling two jobs; the strength of a grandmother who still goes to work every day to help raise her grandchildren and save enough to one day retire; the amazing grace of our aunts and sisters and best friends fighting to overcome breast cancer or another illness. The poise of every young woman who refuses to listen to the ads and institutions that tell her she is only valuable if she is blonde, and thin, and perfect.

We must celebrate these women's stories and what they tell us—that we are not alone, and that we can change the way things are. Today, at the start of the 21<sup>st</sup> century, when a woman decides to take her finances into her own hands, and to provide for a secure and comfortable and dignified retirement, she is confronted with having to make many complicated choices and many difficult decisions. And it's not surprising, then, for a woman to feel overwhelmed, alone and on her own.

This book and its authors are here to tell all working women two important things. First: You Can Do It. Second: You Are Not Alone. We are here to share the practical wisdom gained from experiences like yours, to help you take control of your life and prepare for your retirement.

We have to help each other prepare so that you, your mother, your sister, your daughter, your best friend, won't end up like so many elderly women today who are living in poverty and despair and disrespect. Many of these same women lived comfortably before retirement. Poverty in our country has a distinctly feminine face. The largest growing segment of our population is poor, elderly women.

We shouldn't let this happen in our lives. We must take charge and have faith that in unity there is strength, in knowledge there is power, and in our action there is a future.

Over the last several decades, women across generations have knocked down barriers in the workforce. Today we are doctors and lawyers and CEOs. We build cars and ships and machines and microchips. We design new products that protect our environment and our health. We tend to the sick and cure diseases. We drive trucks in wars. We are senators and governors. We are waitresses and chefs. And at the end of the day, we are still the caretakers of every home — the glue that keeps things from spinning into chaos. When our children, our spouses, or our parents need care and caregiving, we are called on and we are there.

This is what we have accomplished together after decades of hard work. And this hard work must continue in order to achieve equal pay, pensions, and the chance to be caregivers and not be penalized for it in retirement.

Today, our retirement system still functions as if most of the workers in America were men. But with 69 million women in the workforce—and 10 million of them the sole breadwinners in their families—it is time and past time to bring our retirement policies into the 21<sup>st</sup> century.

Women must do what we do best: take charge ourselves. The question is how. How do you juggle and try to balance one more thing when you are already so heavily burdened? How do you plan for 30 years down the road when you'd be happy getting through the chaos of the day: getting the kids to school, getting to work, and getting home at night?

I hope this book provides you with some answers. They aren't quick fixes, but they will help you get on a path to economic security. I have reached out to some of the most passionate and dedicated people and asked them to focus on writing clear and comprehensive chapters about different aspects of personal finance and retirement planning.

The financial security of women is something I have cared about for more than a decade. It is very personal. After losing my first husband, John Heinz, in a plane crash in 1991, I felt overwhelmed and helpless. Fortunately, I did not have to worry about financial problems. But I began to think, "What if my circumstances had been different? There are many who feel the way I do but few who are as fortunate. What can be done for those who find hardship behind each door?" That was the beginning of a personal commitment and vision for me.

That is why, a decade ago, I established the Women's Institute for a Secure Retirement ([WISER](#)) as part of the Heinz Family Philanthropies' efforts. We have now reached millions of women with timely and practical information about their financial rights and opportunities. We continue to lead efforts in Washington to change the laws that discriminate against women and saving.

At WISER, we have learned that most people—and most women—simply don't know the facts about women and retirement. For example, women still earn only 77 cents to a full-time working man's dollar.

Two-thirds of all working women earn less than \$30,000 a year in jobs without pensions. Over a lifetime, women will spend 27 years in the workforce, while men will spend almost 40 years. Because women will leave the labor force to have children and care for family members, women retirees (and only the lucky ones at that) will receive about half the pension benefits retired men can count on. This also means a smaller Social Security check for women—who often count on it for the lion's share of their retirement income. Women live longer than men, which means they have to think about extended health care and long-term care costs.

It may seem that the decks are stacked against women. But once we understand and state the obvious differences between men and women when it comes to the workforce and retirement, we can begin to fix the problems they present. You have already started to do something by picking up this book, because this book tells you what you need to know. This book will tell you what you can do to start saving, and be your map for navigating the mazes of pensions, Social Security and Medicare. And it is important to reiterate that it is still important to save, even a little, while you are paying off your student loans.

A lifetime of hard work should bring economic security and the resources to enjoy a retirement earned over many working years.

It's time to close the wage gap and enforce and strengthen anti-discrimination laws. It is time to focus on increasing retirement security for *all* Americans by increasing private savings, pension

stability, and protecting Social Security. And it is time for us to get to work and rid the current system of inequities facing working women.

We all know that women are the chaos managers of our society: juggling children, spouses and work in and out of the home. And I hope that this book will provide you with the tools you need to make that juggling a little easier.

Once you begin to learn and save and work toward your own retirement goals, perhaps you will share your story with someone else you know and care for or care about. These are the stories we all look forward to hearing the most: the ones filled with grace and dignity after a lifetime of work and care. That's the story we all dream of, and together we will write it by taking charge of our own financial destinies.

And, as you read this and have a story to share, please email me ([teresa@heinzoffice.org](mailto:teresa@heinzoffice.org)), or write me a letter in care of the Heinz Family Philanthropies, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

Finally, let me thank and applaud the efforts of Cindy Hounsell, the President of WISER, and Jeffrey Lewis, the WISER Board chairman, for bringing this information, at no cost, to all the women, and any enlightened men, who will read it.

Teresa Heinz Kerry

## Dedication

In a conversation one day, Teresa Heinz Kerry, the chairman emeritus of the Women's Institute for a Secure Retirement (WISER), challenged WISER staff to compile a book about retirement issues that would provide women with information they could readily use. She believed, as do we, that because women live longer and because they are the majority of the nation's caregivers, that it was especially important for them to know how to take control of their own retirement future—if they don't, no one else will.

WISER began in 1996 because Teresa believed that all women needed access to up-to-date and easy-to-understand information about how to take control of their own financial lives, and to learn what they could do to assure their security in their retirement years.

Teresa has supported our work annually and without her help, encouragement, and vision, WISER could not have grown to bring together the partnerships and organizations that have helped us to reach millions of women. Teresa personifies the definition of a Renaissance woman.

Along the way, award-winning Broadway producer and director, Bill Haber, heard about what we were doing and immediately sent funds to further our work.

To create this book, we brought together a group of experts from across the United States to work with us on this project—a book on women's retirement issues that would be available to all women for free. Like Teresa, these individuals contributed their many diverse talents but all shared in the belief that we can and must make a difference.

There are others who provided help—including all WISER Board members and its Advisory Council. Special appreciation goes to Wendy Button, Maudine Cooper, Vickie Elisa, Mary Murphree, Camille Murphy, Mary Pettigrew, Donna Purchase, Anna Rappaport, Alma Morales Riojas, Margaret Scott, as well as Jenny Backus, Laurel Beedon, Bill Benson, Chris Black, Jeremy Button, Bonnie Coffey, Cheryl Gannon, Frank Gannon, David Koitz, Reina Montes, Bobbi Munson, Kathy Stokes Murray, Grant Oliphant, Martha Patzer, Charles Richardson, and Cliff Shannon.

But, eight individuals stand out because of their individual and collective commitment to helping women get a hand up, not a hand out: Melinda Blinken, Jerry Hodge, Lyle Howland, Ellen Levine, Karen Judd Lewis, David E. Shaw, Billy Tauzin and Elizabeth Vale. Each is a WISER Hero.

A unique group of women stands out because of their courage of conviction, women who reminded me every day why what we are doing is so important: Jessica Catto, Judy Davenport, Lori Ferrell, Peggy Grossman, Coco Kopelman, Dominique Laffont, Wendy Mackenzie, Singer Rankin, Doris Reggie, Linda Smith, Allyn Stewart, Diana Walker, and Wren Wirth.

And Cindy Hounsell (WISER's president) who personifies how one person really can, and does, make a difference every day.

WISER's mission, our goal, our desire is easily stated but hard to achieve: We want to help reduce and ultimately eliminate the poverty of America's older women. Our success is measured by the knowledge that every day, the poor, older women who have for far too long been out of sight and out of mind in America, increasingly are being seen and served and respected.

We have made a good start. We have come far. We still have a long way to go. If you have any questions, comments or ideas, please send me an email at [jlewis@heinzoffice.org](mailto:jlewis@heinzoffice.org), or send a letter to Jeffrey R. Lewis, Chairman, Women's Institute for a Secure Retirement, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

And every day we draw inspiration from the memory of the late Senators John Heinz and Patrick Moynihan and Congressman Phil Burton—to whom this book is dedicated.

Jeffrey R. Lewis, Chairman

# Chapter One: Women and Retirement Income: Some Facts to Get You Thinking

By **Cindy Hounsell**

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Planning for the future can be a daunting task. The younger you are, the easier it is to put it off until next month or next year. The older you are, the harder it is to find the time and the energy. Both men and women need to plan for how they will pay the bills during their retirement years. But it is especially important for women, who live on average four years longer than men and as a result need more income. It's important to understand the facts and learn how to plan for the future.

Over the next two decades, nearly 40 million women will reach retirement age. Unfortunately, our nation's retirement system was created at a time when men were the primary wage earners and women worked at home; the system has not kept up with the times.

Some women today are fortunate enough to be able to rely on a stable retirement income based on three sources known as the three-legged stool: 1) Social Security benefits, 2) income from an employer-provided retirement plan, and 3) individual savings. In theory, these three legs stand strong and provide enough income to pay the bills, cover health care costs, weather unforeseen tragedies like illness or the death of a spouse and, in the case of Social Security, adjust fully to rising inflation. However, for most women, that three-legged retirement stool is wobbly at best. Many older women rely on Social Security as their only income source in retirement; they have no retirement plan and little savings. Many also took time out of the workforce to raise children or to take care of a family member who was ill, and often when they returned to work, it was to low-wage jobs with no benefits. Women take an average 13 years out of the workforce for family caregiving.

Generally, financial experts suggest that people plan to replace between 70 and 90 percent of pre-retirement income if they want to maintain their current lifestyle during the estimated 20 to 30 years spent in retirement. But because of their longer lives, lower pay and lack of benefits, women need to replace even more than that—some experts suggest at least a 100 percent replacement rate.

## **Why Women Are Falling Short: Some Basics**

To spend their retirement years in comfort and security, women must start planning early. The first step in this process is understanding why retirement security is so elusive by looking at some of the most basic and troublesome facts about women's earnings, work status, life expectancy, marital status, and retirement income:

### *Earnings*

- Two-thirds of working women earn less than \$30,000 a year.
- Nearly half of all women work in low-paying jobs without retirement plans or 401(k)s.
- Women earn on average 77 cents for every dollar earned by men.

### *Work Status*

- Women are more likely than men to work part-time. Part-time employment is associated with lower wages, fewer opportunities for promotion, a lower likelihood of pension coverage and eventually smaller benefits.
- Over a lifetime, women will spend 27 years in the workforce, compared to almost 40 years for men.

### *Life Expectancy*

- Today, an average woman's life expectancy at birth is 80.1 years, compared to 74.8 years for men. If a woman lives to age 65, she can expect to live until the age of 84 or 85—about four more years than a man.

### *Marital Status*

- Between the ages of 75 and 84, only 34 percent of women are married with a spouse present. For women age 85 and older, only 13 percent are married with a spouse present.
- With the death of a spouse, a woman often experiences a steep drop in income—from her spouse's pension and even from Social Security.

### *Retirement Income*

- The median income in 2004 for retired women was \$12,080 compared to men's income of \$21,102.
- The poverty rate in 2004 for single white women age 65 and older was over 20 percent; that rate was double for single African American and Hispanic women.
- Social Security continues to be the only source of income for one in four unmarried women.

## **The Three Legs of the Stool**

Many older women rely on **Social Security** as their primary or only source of retirement income—it keeps almost 40 percent from falling into poverty. However, Social Security replaces only 40 percent of an average worker's wages. That 40 percent is not enough alone, and the fact that they are without other sources of income such as pensions or savings is one of the major reasons why so many older women live at poverty's door.

**Private pensions and retirement savings plans** such as 401(k) or 403(b) plans are the second leg of the retirement stool. They are a valuable part of a retirement income package, but they are not always available to women. Less than one-third of retired older women today receive pension income. And the situation is not improving. Less than half of working women have access to a private pension or retirement plan at their jobs. Additionally, women often leave jobs before vesting in a pension benefit, and because the dollar amounts they receive are smaller, they tend to spend all or part of any lump sum distribution they receive from 401(k)-type plans. The third leg of the retirement security stool is **individual savings**. Because of the changing nature of employer-provided pensions and savings plans, women must save on their own and save more than men—not only because they live longer, but also because they are more likely to have higher expenses for health care, long-term care and prescription drugs. Unfortunately, women's lower average earnings and more time out of the workforce for caregiving make it difficult for them to save the amounts needed for retirement.

### **Today's vs. Tomorrow's Income Security**

Times have changed since the “three-legged stool” was conceived. Over the last several decades, women’s labor force participation has increased dramatically. Today, the majority of women in every age group are in the labor force. Unfortunately, our retirement income system has not responded to the change in the composition of the workforce, and this is one of the primary reasons why the traditional three-legged stool of retirement is so wobbly for women. Even though women have worked in some capacity their entire adult lives—raising children, caring for an ill parent, as well as joining the paid labor force either full- or part-time, millions of women find themselves with few financial resources when they look toward the future, and many are vulnerable to the real possibility of poverty in their retirement years.

It is clear that without significant changes, women’s work patterns and caregiving responsibilities will continue to place them at a disadvantage in our nation's retirement system. As long as women earn less, live longer, and experience more interruptions from paid work and work in the types of jobs that do not provide benefits, the bleak retirement picture will remain largely the same, and retirement security for millions of women retirees will remain elusive.

While we can hope that public policymakers will adopt changes to prevent poverty in old age, there are things women can do to seize control of their own economic future and make the most of the existing system. Our goal at WISER through the distribution of this book is to educate as many women as we can reach, to provide them with the knowledge they need to take meaningful steps toward controlling their financial future.

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WISER publishes a quarterly newsletter, if you are interested in subscribing, subscriptions are available for \$12. Just send your name, address, and a check to WISER, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

# 10 Ways to Become Financially Wiser!

<p><b>1. Save More.</b> Most people do not think about financial matters from a long-term perspective so they do not estimate how much money they will need for retirement, or if they do, they vastly underestimate how much they will need.</p>	<p><b>6. Don't count on working.</b> Plan early! Many workers will retire before they expect to, and before they are ready. Nearly four in ten people retire due to poor health, caring for a family member, or job loss.</p>
<p><b>2. Accept that you will probably live longer than you expect.</b> Individuals are expected to manage their own retirement funds. Many will plan for the average life expectancy, not realizing that this means that half of the people will live longer. The big risk for women is that they will outlive savings.</p>	<p><b>7. Deal with inflation.</b> Inflation is a fact of life that workers usually deal with through pay increases. After retirement, it is up to people to manage their own assets, or secure guaranteed income. Few people have the skills to manage income to keep up with inflation.</p>
<p><b>3. Learn about various sources of retirement income.</b> Workers misunderstand what their primary sources of income will be in retirement. Social Security is the most important source of income for many people, but before retirement, they tend to vastly underestimate its importance.</p>	<p><b>8. Face facts about long-term care.</b> Many people underestimate their chances of needing long-term care. Relatively few people either own long-term care insurance or can afford to self-insure a long-term care situation.</p>
<p><b>4. Learn how to manage your retirement savings plan.</b> Due to the growth of retirement savings plans such as 401(k) and 403(b) plans, workers are now responsible for managing their investments. Most workers lack basic financial knowledge but need to become experts about work benefits.</p>	<p><b>9. Provide for a surviving spouse.</b> Many married couples fail to plan for the eventual death of one spouse before the other and the resulting drop in income at the time of widowhood. Many more single women live in poverty in old age.</p>
<p><b>5. Look for good advice.</b> A significant portion of retirees and pre-retirees do not seek the help of a "qualified professional." Yet, while they indicate a strong desire to work with a professional, most ask friends and family for advice.</p>	<p><b>10. Make your money last for a lifetime.</b> People often pass up opportunities to get a lifetime pension or annuity, failing to recognize the difficulty of making money last for a lifetime. People say guaranteed lifetime income is important, but in practice they usually choose a lump sum.</p> <p style="text-align: center;">***</p>

This checklist is drawn from the work of the Committee of Post-Retirement Needs and Risks of the Society of Actuaries and the content and recommendations in the report, "Public Misperceptions about Retirement Security," published in 2005 by LIMRA International, Inc., the Society of Actuaries, and Mathew Greenwald & Associates, Inc. The Committee has identified the areas in which the public does not understand the realities of retirement planning and that serve as barriers to individuals creating a good solution in this era of individual responsibility.

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## Start Planning Today Using This RETIREMENT INCOME CHECKLIST

Like many of us, you may dream of the day when you can stop working and enjoy a comfortable retirement. This checklist provides you with some important choices to consider in order to make wiser decisions through your working years and your retirement years.

- ✓ **How much will you need?** Make an estimate of how much monthly or annual income you will need in retirement.
- ✓ **What are your sources of retirement income?** Think about what sources of retirement funds will be available and how much you will receive from each, including Social Security, employer retirement plans and your own personal savings.
- ✓ **How long will you live?** In planning for retirement, it is important to consider how long you might live. While on average people who reach 65 live into their 80s, a few live to 90 and beyond.
- ✓ **What if your spouse dies first?** If you are married, find out which benefits will continue if you or your spouse should die first.
- ✓ **How will the cost of living change in the future?** When you estimate your retirement income needs, remember to include the impact of inflation. Costs are likely to rise each year, and the impact of these increases over time can be quite large.
- ✓ **How will you pay for healthcare?** Consider how you will pay your medical bills. Are you eligible for Medicare or other medical insurance?
- ✓ **How do you handle the unexpected?** Be sure to take into account how you would handle potential emergencies, such as home repairs, unexpected medical bills or family emergencies.
- ✓ **What if you need assistance in your retirement?** Consider how your retirement income would be affected if you needed long-term care, assistance at home or special housing.
- ✓ **What will you do in your golden years?** If you have specific plans for retirement, such as travel, consider how you plan to pay for it.
- ✓ **How will you manage your retirement money?** Consider how you will be able to manage your funds and what the right mix of investments is for your retirement needs. Investments include stocks, bonds, annuities, money market funds, your home, other real estate and other savings.
- ✓ **Have you thought about estate planning?** Estate planning is an important part of your plan for retirement. Seeking expert advice in this area can greatly assist you.