

Foreword by Teresa Heinz Kerry

What Women Need to Know About Retirement

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 21st 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 21st 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), 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, 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 Six: Where Will Your Retirement Money Come From?

By members of the Consumer Education Committee of the Actuarial Foundation, Morton M. Dickstein, FCA, MAAA; Stanley Freilich, FCA, FSA, MAAA; Anna Rappaport, FSA, MAAA; Vinaya K. Sharma, FSA, MAAA; and C. Eugene Steuerle, Ph.D.

www.actuarialfoundation.org and www.annarappaport.com.

Your retirement may be a lot different than it was for earlier generations of women. For one thing, you're likely to live longer, given increases in life expectancies. Half of all women who are now 65 will live beyond age 85. A longer life often means a longer retirement—and a more costly one.

Some fortunate women who are now retired spent their careers working for employers who offered a traditional pension plan—monthly income for life in retirement—or were married to men who were covered by this type of plan.

You are more likely to participate in a retirement savings plan, such as a 401(k). With savings plans, you must decide how much to save and how to invest the money. Your decisions have a direct effect on how financially secure you will be in retirement. It's a big responsibility. Typically, your 401(k) retirement money will come to you as one lump sum when you retire, rather than as a steady stream of monthly payments for life the way a traditional pension would. You are responsible for managing the lump sum. Like it or not, your retirement income security is up to you.

Unfortunately, many workers do not understand the wide range of financial choices now available to them. If you're like most people, you may not know enough about how to get ready for retirement. It is important that you have a good understanding of how to plan, budget, save, and invest for retirement. It is also a good idea to seek information and guidance from your employer and/or outside experts about when you could afford to retire, how much income you will have, what your expected monthly Social Security benefit will be, where the money will come from, and how to make it last.

Many financial planning professionals say a good target is to try to have enough money to replace 80 percent of your pre-retirement income. Because many of us have not saved enough for retirement, we may have to retire at a later age, accept a more modest lifestyle, or both.

The first step to creating a retirement plan that will work for you is understanding what you'll have from pension benefits, personal savings and other assets, and Social Security. This chapter will help you figure this out.

Evaluate Your Assets and Retirement Resources

As you plan for your retirement, try to take all of your potential retirement resources into account. These could include:

- Your Social Security benefits, as well as those of your spouse.
- Your Medicare benefits, as well as those of your spouse.
- Personal savings through a 401(k), Individual Retirement Account (IRA), or similar plan.
- Your pension benefits as well as those of your spouse and other family members.

- Income that could come from part-time work or starting a new business from home.
- Money from selling your home and moving to a smaller one or to a less expensive area.
- Taking out a reverse mortgage on your home.
- Money saved by cutting down on your expenses.
- Any continued medical benefits available through your or your spouse's employer.
- Income from selling certain personal property that you will no longer need in retirement, such as second homes, extra family cars, jewelry, clothing, tools used for work, etc.
- Any long-term care insurance that you currently own.
- Life insurance policies that could be converted to cash or monthly income, or used to provide cash for your survivor.

Examine Your Financial Issues

Once you have a handle on what resources will be available to you in retirement, think through what financial needs you might have. Realize that the longer you work, the more money you can accumulate and the less money you will need. Your key financial issues include:

- Your needs at the time of retirement.
- The impact of retirement timing on Social Security benefits for you and your spouse.
- Your willingness to keep some money in the stock market.
- The cost of health insurance to supplement Medicare.
- Future inflation that will make everything cost more over time, especially medical care.
- For couples, the needs of the survivor after one partner dies.
- Potential expenses if one or both spouses need special care or become frail.
- Potential requests for help from parents, children and other family members.
- The need for a financial cushion to absorb unexpected costs, such as rising property taxes.
- Your retirement dreams, including special travel wishes and the desire to add a seasonal or vacation home.

Employer-Sponsored Pension and Savings Plans

Let's take a closer look at employment-based pension and retirement savings plans, and cover ways you can make the most of them. For those companies sponsoring pension plans, there are two basic types:

A **defined benefit plan** is a traditional pension plan with benefits based on the individual's years of work for the company and other factors, such as level of pay. The defined benefit plan tells you exactly how much money you will receive, such as a payment of \$500 a month. The benefits are typically paid out over your lifetime, or over the lifetime of you and your beneficiary.

If a private sector plan is discontinued or is unable to pay benefits, a federal corporation known as The Pension Benefit Guaranty Corporation (PBGC) takes over the plan and makes the benefit payments (up to a certain limit).

A **defined contribution plan** is a retirement savings plan that pays benefits equal to the amounts contributed to employees' individual accounts plus investment gains or losses.

Workers, employers or both can contribute to defined contribution plans, which include the popular 401(k). The plans typically give you a tax break on the money you contribute. For example, if your annual earnings are \$30,000, and you contribute \$3,000 to a traditional 401(k) plan, your income tax will be based on annual earnings of \$27,000. Your contributions, your employer's contributions, and investment returns aren't taxed until you withdraw your money. (You may also be eligible for a plan that gives the tax break when you take the money out in retirement, rather than as you're putting the money in; these are known as Roth plans.)

The purpose of **all employment-based plans** is to help provide security in retirement. Be aware that most plans include a vesting provision. This means you have to stay with a company for a certain amount of time to qualify for benefits from the plan. However, once benefits are vested, you get a benefit even if you no longer work for that employer. For example, in a defined contribution plan with a five-year vesting requirement, you have to work the full five years in order to earn the employer match. In a defined benefit plan with five-year vesting, you have to work the full five years to earn any benefit at all. It's important to learn the rules.

Information about your plan is contained in a **Summary Plan Description, (SPD)**. The SPD will outline the conditions for participation in the plan.

The SPD for a *defined benefit* plan will provide vesting information, the formula for how benefits are calculated and other information such as early retirement benefits, death benefits, or disability benefits. A *defined contribution* plan SPD will give you such useful information as your investment options, the contribution limits, the employer match amount, the vesting period, and either how the benefits will be paid, or what payout options are available.

Guidelines for Making Good Use of Employer Plans

For many women, pensions are just not available. The realities of family life are such that women spend on average only 27 years in the workforce, compared to 40 years for men. Our current retirement system wasn't designed with working women in mind: Their part-time and intermittent employment due to family caregiving responsibilities can mean that they aren't eligible or can't vest in the plan. If you or your spouse have a choice about employment, and other things are equal, look for an organization with good retirement benefits. Most of all protect your future security by making the best use of what is available to you.

Here are some things you can do to make the best use of the benefits you do have:

- Check on whether your employer is doing well to increase the chances of a good outlook for continued employment and continued benefits.
- Save at least the amount matched by your employer in 401(k) plans and other defined contribution plans.
- When investing funds, don't put all your eggs in one basket—diversify.
- Don't use retirement money for non-retirement purposes.
- If you are thinking about switching jobs, remember to look at the vesting schedule where you are and stay at least that long.
- If you are self-employed, don't forget to save—you need retirement income too.
- Remember that plan funds are an asset at the time of a divorce, and in the long run, might be the most important asset you have.
- Don't retire too early, and remember that your money needs to last a lifetime.

Three more tips:

- File and save all your plan information, including benefit statements and Summary Plan Descriptions.
- Keep track of any pensions or 401(k) account balances that you earned with prior employers, either by saving your latest statements or by rolling over the funds into an IRA that you control. If you lose contact with a former employer whose defined benefit pension plan covers you, the PBGC may be helpful. Their booklet “Finding A Lost Pension” is available at http://www.pbgc.gov/docs/Finding_A_Lost_Pension.pdf.
- When leaving a job before retirement, be careful about cashing out any lump sum benefit. You can avoid IRS penalties and preserve the money for retirement by taking a direct rollover to an IRA or to another employer’s plan.

Examples of How Retirement Plans Can Work

In order to understand these plans and to help you see how they may fit into your retirement planning needs, here are three examples of how these plans worked for some people we know.

Rose and Dick

Rose and Dick lived a modest lifestyle in a rented apartment during their lives. Rose did not enter the workforce until she was 51. Even though she worked for low wages in a state agency, she was covered by a pension plan, an employer-paid retirement health care program and Medicare at retirement.

Dick ran a very small business. He did not have a formal pension plan, but managed to build a nest egg by investing in the stock market. He did not have health insurance when he retired, but was covered by Social Security and Medicare.

They both retired when Rose was age 66. Their retirement income was not much, but with Rose’s pension, coupled with the income from Dick’s investments and their Social Security benefits, they managed to live somewhat comfortably.

Rose was not always in good health during her retirement. Nearly all of her health care costs were covered by Medicare or her employer-provided health care program.

Susan

Susan, age 42 and unmarried, has worked in retail since she graduated from college many years ago. Her current employer of six years, a good-sized department store chain, provides her with a 401(k) plan. Her previous employers did not. However, during the years she was not covered by a 401(k) plan, she set aside money in an IRA account, and she continues her retirement savings by setting aside as much as she can in her 401(k) plan.

As a participant in her employer’s 401(k) plan, she contributes enough to earn the employer’s match (dollar for dollar up to six percent of her pay) and she tries to save beyond that amount.

She also chooses the way her funds are invested within the plan. Few employees focus on how to invest their money to meet a certain retirement income goal. Susan is making the best of her situation, and will be far better off than her colleagues who aren’t saving anything.

Jessica

Jessica, age 38, is just divorced after 15 years of marriage. During her marriage, Jessica worked on a part-time basis to supplement the family income. Under the terms of the divorce, Jessica will get half of the value of the pension plan assets that were earned during the 15 years of the marriage. She was able to get this benefit because the judge in the divorce proceeding issued a Qualified Domestic Relations Order (QDRO), a very important, and sometimes overlooked, piece of paperwork. The assets accumulated in pension plans during a marriage can be divided through negotiation as part of the divorce process. Determining the value of assets earned during the marriage can be complicated, and you may need to get professional help to figure it out. It is important for the attorneys to have access to the retirement plan provisions as soon as possible so that they can determine just what the plan will permit and finalize the agreement in a QDRO.

Four Ways to Save for Retirement

Here's a comparison of four ways to save for retirement. The examples show that saving in a tax-advantaged IRA or 401(k) plan, like Mary, Carol and Joan, will increase the amount of spendable money you will have in retirement.

	Personal Investments	Roth IRA	Traditional IRA	401(k) with 50% Employer Match
<p>Examples Each of the four women is age 35.</p> <p>The calculations are based on their contributing \$3,000 of Gross Annual Pay.¹</p>	<p>Anne saves \$3,000, which after tax is \$2,400.</p> <p>By age 65, Anne's account has grown to \$186,805.</p> <p>Her spendable money is \$186,805.</p>	<p>Mary saves \$3,000, which after tax is \$2,400.</p> <p>By age 65, Mary's account has grown to \$242,575.</p> <p>Her spendable money is \$242,575.</p>	<p>Carol saves \$3,000 a year and pays no taxes on this amount.</p> <p>By age 65, Carol's account has grown to \$303,219.</p> <p><u>After taxes</u>, her spendable money is \$242,575.</p>	<p>Joan saves \$3,000 a year and pays no taxes on it, and her employer makes a matching contribution of \$1,500.</p> <p>By age 65, Joan's account has grown to \$454,829.</p> <p><u>After taxes</u>, her spendable money is \$363,863.</p>
<p>Advantages</p>	<p>No limit on how much you can put in or take out in any year.</p> <p>No tax on money you take out.</p>	<p>Annual investment growth is not taxed, so fund grows more rapidly.</p> <p>No tax on money you take out.</p> <p>After age 70 ½, you can leave all money in and contribute more.</p>	<p>Annual investment growth is not taxed, so fund grows more rapidly.</p> <p>Immediate tax deduction.</p>	<p>Annual investment growth is not taxed, so fund grows more rapidly.</p> <p>“Free money” from employer match.</p> <p>Immediate tax deduction.</p>
<p>Disadvantages</p>	<p>No tax advantages.</p>	<p>No front-end tax deduction.</p> <p>Penalties for taking money out before age 59 ½ or during the first 5</p>	<p>Money you take out is fully taxable.</p> <p>Penalties for taking money out before age 59 ½, or for not taking</p>	<p>Money you take out is fully taxable.</p> <p>Penalties for taking money out before age 59 ½, or for not taking some out after</p>

		years, with certain exceptions.	some out after age 70 ½, with certain exceptions.	age 70 ½, with certain exceptions.
--	--	---------------------------------	---	------------------------------------

Technical Details			
	Personal Investments	Roth IRA	Traditional IRA and 401(k) with 50% Employer Match
Income Tax Treatment	<p>You contribute after-tax money.</p> <p>No limit on how much you can save.</p> <p>You pay income tax annually on investment earnings.</p> <p>No tax on money you take out.</p>	<p>You contribute after-tax money.</p> <p>IRS rules limit annual contributions.</p> <p>No tax on investment earnings.</p> <p>No tax on money you take out.</p>	<p>Contributions are deductible from taxable income.</p> <p>IRS rules limit annual contributions.</p> <p>No tax on investment earnings while in the plan.</p> <p>Money you take out is fully taxable.</p>
Penalties for Early or Late Withdrawal	<p>None.</p>	<p>10% penalty for early withdrawal of earnings during the Roth IRA's first 5 years or before age 59 ½ with certain exceptions.</p> <p>No limit on withdrawals after the IRA's first 5 years if you are over age 59 ½.</p>	<p>10% penalty for early withdrawal before age 59 ½ with certain exceptions.</p> <p>50% penalty for not taking minimum required withdrawals each year at age 70 ½ and over (this rule does not apply to a 401(k) plan where the employee is still working after age 70 ½).</p>
<p>The four examples assume \$3,000 a year of annual gross savings, and payment of tax either before or after contributing, depending on the tax rules. Each example assumes the person is age 35, will retire in 30 years, and is in the 20% tax bracket (federal + state) before and after retiring. Their investments earn 7% a year before taxes.</p>			

Social Security

When you create your retirement plan, you should include your Social Security benefits. (For most women, Social Security will be their primary source of retirement income.) The chapter in this book, “Six Things You Need To Know About Social Security,” will provide you with the information you need to get started.

Conclusion

The more you know about what you have, what you are entitled to, and what you want out of retirement, the better off you are. Every woman can take charge of her financial future. The best place to start is by knowing your financial facts so you can make your pension, your Social Security benefits and your savings plan work for you.