

Women and Life-Defining Financial Decisions

Anna Rappaport Founder, Anna Rappaport Consulting | Nevenka Vrdoljak Director, GWIM CIO Office



Longer life expectancies and employers' shift away from defined-benefit pensions have brought into focus the need for personal retirement planning. Yet many American women may not be adequately prepared for the financial challenges that lie ahead. Accumulating the assets necessary to live comfortably beyond one's working years requires planning. Decisions that may seem unrelated to financial security can have a significant impact later on. This article focuses on the decisions women make throughout their lives that affect retirement security. It serves as a reminder to invest great care in these choices.

THE DIFFERENCES BY GENDER

As they plan for retirement, women encounter many of the same worries as men: outliving assets, not saving enough, not investing well enough, needing long-term care, becoming disabled, losing a spouse, or falling victim to a scam. But women have different life paths than men. These divergent paths make retirement security more elusive, and require attention to issues specific to each situation. Life paths and retirement experiences of women and men differ for many reasons. Some examples:

- On average, women earn less over time than their male counterparts. Overall, they have lower career earnings due to lower wages, fewer years of paid work before retirement, and a greater chance of having worked part-time. Women's earnings average \$0.79 for every \$1 earned by men — a lifetime shortfall of over \$300,000.¹ As a result they have lower pension benefits and/or balances in employersponsored 401(k) and other defined-contribution plans.
- Women have longer life spans. Women need more money to achieve the same standard of living in retirement and must make the money last longer. At age 65, women can expect to live an average of 21.6 more years and men an average of 19.3 more years.²
- Women are more likely to take the off-ramp to assist with caregiving needs. They are more likely to be caregivers than men and less likely to have a family caregiver if they need help. An estimated 66% of caregivers are female.³ Taking time off to provide care for a loved one can disrupt a woman's sustained accumulation of retirement funds. Even if she has accumulated assets, caregiving responsibilities may require her to spend them prematurely.
- Women are more likely to become single parents earlier in life. Out of about 12 million single-parent families, over 80% are headed by single mothers.⁴ Many single parents struggle to make ends meet, exacerbating the challenge of saving for retirement.
- Women are likely to spend their last years alone. After age 85, only 19% of women have a living spouse.⁵



¹ American Association of University Women (AAUW), "The Simple Truth About the Gender Pay Gap," Fall 2015 Edition.

² <http://www.ssa.gov/planners/lifeexpectancy.html>

³ The National Alliance for Caregiving and AARP. (2009). "Caregiving in the U.S.," National Alliance for Caregiving, Washington, D.C.

⁴ U.S. Census Bureau – Table FG10. Family Groups: 2014

⁵ Tamborini, Christopher R., "The Never-Married in Old Age: Projections and Concerns for the Near Future," Social Security Bulletin, Table 1, page 27, Vol. 67, No. 2, 2007.

⁶ Institute for Women's Policy Research, The Importance of Social Security in the Incomes of Older Americans Differences by Gender, Age, Race/Ethnicity, and Marital Status, August 2013. Based on 2012 Current Population Survey Annual Social and Economic (ASEC) Survey.



Merrill Lynch makes available products and services offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a registered broker-dealer and member SIPC, and other subsidiaries of Bank of America Corporation ("BofA Corp"). Investment products offered through MLPF&S and insurance and annuity products offered through Merrill Lynch Life Agency Inc.:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
Are Not Deposits	Are Not Insured by Any Federal Government Agency	Are Not a Condition to Any Banking Service or Activity

Merrill Lynch Life Agency Inc. is a licensed insurance agency and a wholly owned subsidiary of BofA Corp.

© 2016 Bank of America Corporation. All rights reserved.



In seeking to strengthen retirement security. The following considerations loom especially large for women:

CAREER DECISIONS

Between their 20s and their 60s, women pursue many different types of careers and patterns of work. Some have a series of jobs, while others work for a single employer for a long period. Employers vary widely in the types of benefits they offer employees — and in their comparative generosity.⁷ For example, teachers and public employees often have the potential for long-term employment and generous pensions, but switching jobs may entail a substantial loss of benefits. Small employers, meanwhile, are less likely to offer benefits. In contrast, most large corporations offer health benefits, retirement programs and access to tax-deferred savings. Decisions about career, such as taking one job or leaving another, can affect retirement security. For couples, decisions made by either partner can affect the family.



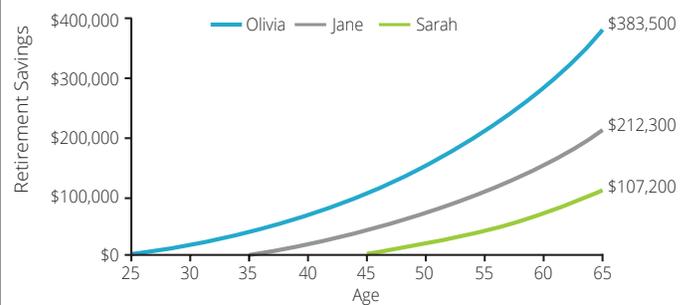
TIPS

- Saving early is very valuable. Savings can increase a woman's chances of having enough to last through her retirement years.
- Carefully consider investment options and implications of being conservatively invested over a longer period of time.⁸
- In making career and job choices, consider the employee benefits available in the industry and company.
- If switching jobs, consider what benefits might be lost.
- If your employer does not offer a retirement savings plan, save in an Individual Retirement Account.

Starting early can make a significant difference over time

Consider the case of Olivia, Jane and Sarah (Figure 1). Olivia puts \$250 per month into a retirement account starting at age 25. Jane starts saving \$250 per month at 35. Sarah starts saving that amount at 45. All three continue to add \$250 per month until they retire at age 65. Accumulated savings vary dramatically depending on when each started saving for retirement. Olivia will have \$383,500 in retirement savings, Jane will have about half that amount, and Sarah about one quarter.

Figure 1: Starting retirement savings at age 25 vs. 35 vs. 45



Note: Assumes a hypothetical annual rate of return of 5%. The analysis is on a pre-tax basis. Figures rounded to the nearest \$100. Source: Calculations by Merrill Lynch Wealth Management

RELATIONSHIP AND FAMILY DECISIONS

Financial plans should help two people achieve their goals whether as a couple or as individuals. Couples may decide to marry or remain unmarried, and they may decide to share finances or keep them totally or partly separate. Family issues become more complex in families with children. The decision of who provides childcare typically affects both partners' career paths.

Couples face many hurdles, financial and otherwise, as they decide how to structure their lives. In many couples, the woman shoulders much of the homemaking and caregiving responsibilities, while the man is more likely to have a long-term, stable job offering the means to build retirement savings. Some couples accumulate debt rather than savings, with both parties bearing that burden. Such situations can leave a woman with unexpected problems later, particularly if she is no longer part of the couple.

Failure to pay attention to one's finances early in adulthood may leave a woman in a difficult situation later on. Similarly, decisions about whether to marry and divorce affect financial security. For example, Social Security offers widow and spousal benefits, but only to spouses, not partners. In addition, income taxes affect married couples differently than singles; and spouses generally have access to employer-sponsored health insurance and have rights under other benefit plans. Today, it is not unusual to be in a different marriage or relationship during retirement than during one's working years. Social Security benefits are available to divorced spouses who haven't remarried, but only if their marriage lasted at least ten years.

⁷According to the U.S. Department of Labor Employee Benefits Security Administration's Women and Retirement Savings study, of the 62 million wage and salaried women (age 21-64) working in the U.S. just 45% participate in a retirement plan (August 2013).

⁸Merrill Lynch research shows that women report having less confidence in their investing knowledge. Source: Michael Liersch, Women and Investing: A Behavioral Finance Perspective, Merrill Lynch Wealth Management, 2015



TIPS

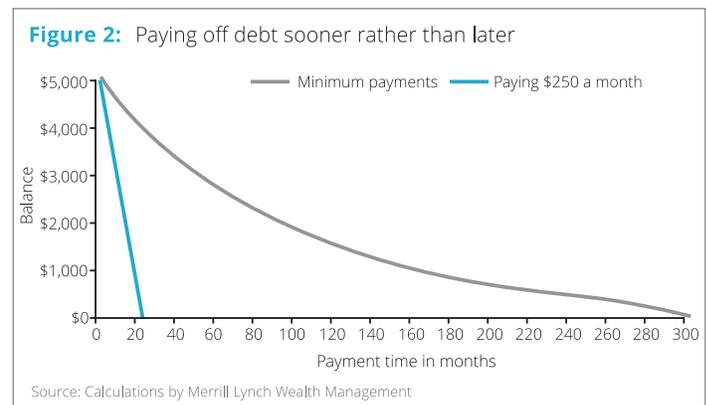
- Pay close attention to personal finances and seek to balance short- and long-term goals.
- For couples, each spouse should be actively involved in making financial decisions.
- Married couples should build a financial plan that works for them today but also for each spouse in the event of separation.
- Safeguard your own needs before deciding to help other family members financially.
- Stay-at-home spouses should seek financial protection, including life and disability insurance; and both they and the breadwinner should consider putting money into a Spousal Individual Retirement Account (IRA).

TIPS

- Don't spend more on housing than you can afford.
- Don't neglect the importance of retirement savings when deciding what is affordable during one's working years.
- Avoid carrying credit card balances or other expensive debt such as payday loans.
- It is important to keep debt to affordable levels.
- Establish a repayment plan and stick to it.

Pay off debt sooner rather than later

Sue has a credit card balance of \$5,000, and the annual interest on the card is 12% (Figure 2). It would take nearly 25 years to pay off the balance if she paid only the minimum of 2%, accruing \$4,698 in interest. But it would take less than two years to retire the debt if Sue paid \$250 each month.



HOME OWNERSHIP AND DEBT

Many American families find that their home is their greatest asset both early in life and when they reach retirement.⁹ Housing is the largest expense for many families, during working years and afterward. Most homes are financed with mortgages that extend over long periods of time. Components of total housing costs include taxes, mortgage payments, utilities, lawn maintenance, repairs, and keeping furnishings up-to-date.

Many women are very attached to their house and want to remain there as long as possible. But in some situations, downsizing or moving may be a wiser choice. For families who have several children, the house may be larger than what is needed after the children leave home, and much larger than what is needed when a woman resides there alone. So women should carefully consider housing alternatives later in life. Women also need to weigh the implications of personal debt.

A new study, shows that credit card debt is the most common financial challenge facing benefit plan participants. Two-thirds say credit card debt is a common financial challenge, and 60% say participants have trouble saving for retirement.¹⁰ Many couples reach retirement age carrying debt, and it is a common barrier to saving for retirement. For women, managing household and other types of debt are crucial issues as they plan for and reach retirement.

CAREGIVING

The term "caregiving" typically connotes raising children or grandchildren, but it often extends well beyond that. Women are the most common caregivers for aging parents or spouses who need help. Women with careers struggle to balance caregiving with career, and many scale back or leave jobs to care for loved ones. Yet the family may have a variety of options with regard to caregiving. A decision to leave a job for caregiving may mean sacrificing one's own future retirement security. Before deciding to scale back a career or retire prematurely, a woman should consider the impact on her future and weigh all possible options.

Note that the options facing caregivers critically depend on whether the loved ones who need care have financial resources and/or long-term care insurance. That is a longer-term issue requiring advanced planning.

⁹ The Society of Actuaries' "Segmenting the Middle Market" study shows that for middle mass households aged 55-64, nonfinancial assets were 65% of total assets for married couples and more than 80% of total assets for single female and single male households. This study can be found at <https://www.soa.org/Research/Research-Projects/Pension/research-seg-middle-market.aspx>. It uses data from the 2010 Survey of Consumer Finances.

¹⁰ International Foundation of Employee Benefit Plans, "Financial Education for Today's Workforce," 2016 Survey Results.



TIPS

- Think carefully before assuming caregiving obligations that could make continuing in your job impossible.
- Do the math to understand how your decision may affect your future financial security.
- Caregiving should be a shared responsibility. If you scale back or leave your job, focus on how to preserve your long-term financial security through alternative means.

Different life paths and retirement saving outcomes

Both Bob and Susan start saving toward retirement at age 25. The table below shows their annual retirement contributions from 25 to when they both retire at 65. Bob consistently saves and progressively increases his annual contributions. Susan initially contributes \$3,000 but then takes time off to care for her children and elderly parents from age, 31 to 45. Due in part to compound interest, Bob's total accumulated savings at retirement is \$528,500. In contrast, Susan's savings at retirement is \$266,400. The difference between the two is significant — a total of \$262,100.

Table 1: Annual retirement contributions of Bob and Susan

Age	25-30	31-45	46-50	51-65
Bob	\$3,000	\$4,000	\$5,000	\$6,000
Susan	\$3,000	\$0	\$4,000	\$5,000

Figure 3: Retirement savings of Bob vs. Susan



Note: Assumes a hypothetical annual rate of return of 5%. The analysis is on a pre-tax basis. Figures rounded to the nearest \$100. Source: Calculations by Merrill Lynch Wealth Management

WHAT TO CONSIDER AS YOU NEAR RETIREMENT

When you retire has far-reaching implications. If a woman retires later, she has more time to save and invest before and less time requiring funds afterward. Research shows that many Americans can live much more comfortably in retirement if they work two to four years longer.¹¹

As women are living longer, their assets need to last longer. A woman can ensure income long into her retirement years by accumulating assets in her working years and carefully determining when best to claim Social Security and pension benefits.¹² If her income from Social Security and pensions will not cover her essential expenses, she should consider allocating some assets to lifetime income annuities.¹³

As one nears retirement, planning also becomes more intense. People must make decisions, even knowing that market fluctuations or other changes will occur once retirement begins. The plan should allow flexibility for such changes. Women who are part of a couple need to link their plans to those of the family, while keeping in mind the likelihood that they may ultimately be alone.

TIPS

- Carefully consider when to retire.
- When to claim Social Security is another very important decision for many families. Claiming decisions affect survivors benefits as well as benefits at the time claimed.
- Long-term care costs can be unmanageable for many families. If the first spouse to die needs substantial long-term care but lacks adequate insurance to fund it, the survivor can be left with few assets. So long-term care insurance is particularly important for women.

IN CLOSING: KEY INSIGHTS

- Life decisions surrounding work and family have an impact on retirement, though often a hidden one. You should weigh the long-term impact of such decisions before moving ahead.
- Change is part of life. A plan should provide for current circumstances but build in protection in the event of change.
- Women often focus on what is best for their families. But they should not forget about themselves.
- Many people do not plan for the long term. But doing so is absolutely critical to ensuring financial security through one's retirement years.
- Most important, women need to recognize the unique financial challenges they face. To meet these challenges, they should start saving and investing as early as possible.

¹¹ Alicia H. Munnell and Steven A. Sass, Working Longer: The Solution to the Retirement Income Challenge, Brookings Institute Press (2008).

¹² For more on this, see David Laster and Anil Suri "Claiming Social Security" Merrill Lynch Wealth Management, 2016

¹³ Research shows that women are more likely to miss not having a regular paycheck in retirement. Refer to: Society of Actuaries and Wiser "Impact of Retirement Risk on Women" 2013



Anna Rappaport is an internationally recognized expert on the impact of change on retirement systems and workforce issues. Following a 28-year career with Mercer Human Resource Consulting, Anna has established her own firm, specializing in strategies for better retirement systems. She is committed to improving America's retirement systems, with special focus on women's retirement security.

Anna has been a leader in the planning, management, and execution of a major research program by the actuarial profession, focused on enhancing retirement security in America. She is a Past President of the Society of Actuaries (1997-98) and has chaired the Society of Actuaries Committee on Post-Retirement Needs and Risks for more than 15 years. Anna is a frequent speaker and contributor to business and trade publications, and is the co-author of three books on various retirement issues.

Anna serves on the boards of the Women's Institute for a Secure Retirement (WISER), and the Pension Research Council. She is a Fellow of the Society of Actuaries, and is a member of the American Academy of Actuaries. Anna holds a master's in business administration from the University of Chicago.

Nevenka Vrdoljak is a director in Merrill Lynch Wealth Management CIO Office. Nevenka holds analytical responsibilities in the areas of asset allocation and retirement investing. Nevenka developed Merrill Lynch Wealth Management's target date asset allocation approach for institutional plan sponsors. Her research has been published in the Journal of Wealth Management and Journal of Retirement.

Previously, Nevenka held analytical roles at Goldman Sachs Asset Management (London) and Deutsche Bank Asset Management (Sydney) in the fixed income, currency and derivatives areas.

Nevenka holds a bachelor's and master's in economics with honors from the University of New South Wales (Sydney). She was awarded an Australian Commonwealth Scholarship where she completed advanced studies in econometrics at Georgetown University. Nevenka graduated from Columbia University with a master's in mathematics of finance.

Merrill Lynch's Wealth Management Institute offers clients among the world's best intellectual capital on topics that complement our traditional investment management and portfolio construction advice. The Wealth Management Institute helps clients and Advisors create holistic and customized solutions by combining Merrill Lynch's expertise in managing wealth for individuals, families and institutions with our internal thought leadership and professional network of industry luminaries and leading academics. All Wealth Management Institute thought leadership is driven and vetted by the Investment Management & Guidance leadership team.

This article is provided for information and educational purposes only. Assumptions, opinions and estimates are as of the date of this material and are subject to change without notice. Past performance does not guarantee future results. The information contained in this material does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account a client's particular investment objectives, financial situation or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security, financial instrument or strategy. Before acting on any recommendation, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Diversification, asset allocation and dollar cost averaging do not guarantee a profit or protect against a loss in declining markets. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you must consider your willingness to continue purchasing during periods of high or low price levels.

The case studies presented are hypothetical and do not reflect specific strategies we may have developed for actual clients. They are for illustrative purposes only and intended to demonstrate the capabilities of Merrill Lynch and/or Bank of America. They are not intended to serve as investment advice since the availability and effectiveness of any strategy is dependent upon your individual facts and circumstances. Results will vary, and no suggestion is made about how any specific solution or strategy performed in reality.

Annuities are long-term investments designed to help meet retirement needs. In essence, a contractual agreement in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. Annuity contracts have exclusions and limitations. Early withdrawals may be subject to surrender charges, and, if taken prior to age 59½, a 10% additional federal tax may apply.

IMPORTANT INFORMATION ABOUT VARIABLE ANNUITIES: Variable annuities are long-term investments designed to help meet retirement needs. A variable annuity is a contractual agreement where a client makes payments to an insurance company, which, in turn, agrees to pay out an income stream or a lump sum amount at a later date. Variable annuities typically offer (1) tax-deferred treatment of earnings; (2) a death benefit; and (3) annuity payout options that can provide guaranteed income for life. The return and principal value of variable annuities are subject to market fluctuations, investment risk and possible loss of principal so that, when redeemed, variable annuities may be worth more or less than the original amount invested. There are contract limitations, fees and charges associated with variable annuities which include, but are not limited to mortality and expense risk charges, sales and surrender charges, administrative fees, charges for optional benefits as well as charges for the underlying investment options. Early withdrawals may be subject to surrender charges, and taxed as ordinary income, and in addition, if taken prior to age 59½ an additional 10% federal income tax may apply. Withdrawals reduce annuity contract benefits, values and optional guarantees in any amount that may be more than the actual withdrawal.

All contract and rider guarantees, optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the claims paying ability of the issuing insurance company. All guarantees and benefits of an insurance policy are backed by the claims-paying ability of the issuing insurance company. They are not backed by Merrill Lynch or its affiliates, nor do Merrill Lynch or its affiliates make any representations or guarantees regarding the claims paying ability of the issuing insurance company. Optional guaranteed benefits typically require investment restrictions and may be irrevocable once elected. Please refer to the prospectus for additional information. Asset allocation does not ensure a profit or protect against loss.

Variable annuities are sold by prospectus only. Your Financial Advisor can provide you with more information, including a current prospectus. The current contract prospectus and underlying fund prospectuses contain more complete details on the investment objectives, risks, fees, charges and expenses, as well as other information about the contract and the underlying portfolios which should be carefully considered. Please read the prospectuses carefully before investing.

Life insurance policies contain fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges and other charges or fees that will impact policy values.

Long-term care insurance coverage contains benefits, exclusions, limitations, eligibility requirements and specific terms and conditions under which the insurance coverage may be continued in force or discontinued. Not all insurance policies and types of coverage may be available in your state.