WOMEN IN RETIREMENT

Three Ways Women Can Prepare for Longevity in Retirement

Living longer often leads to more financial challenges, but proper planning can help women enjoy a long, successful retirement.

(Image credit: Getty Images)

Running out of money is the number one fear for the majority of retirees, but the longevity risk is even greater for women. Not only do they face uphill, systemic battles with their finances, like the gender wage gap, but they also have a greater chance of living longer.

On average, women live six years longer than men, and 85% of centenarians are women! Living longer leads to more health care costs: Over 70% of assisted living residents are women and over half of nursing home residents are female. Having a well-thought-out wealth plan is especially important for women to help ensure a successful retirement, no matter how long it lasts.

I have seen firsthand what can happen to women who do not have a wealth plan. My own grandmothers, Rose and Lilian, lived well into their 90s, and one outlived her money while the other came close to running out — a financial nightmare for them and their loved ones who eventually had to supplement the cost of their care. Their stories provide valuable lessons to empower the next generation of women with financial knowledge and strategies to create a wealth plan that outlives them.

1. Saving Enough Money

My grandmother Rose was a schoolteacher and a single mother. She owned her own home and rented the additional upstairs space for extra income. A proactive planner, she had active investments and a pension from the Miami school system to help pay for her eventual retirement.

From the outside looking in, Rose did everything “right” when it came to her finances. What she failed to account for was three decades of income needs and the high cost of her future long-term care, which meant the majority of her wealth went to taxes and health care costs instead of her family.

Although the gender wage gap has decreased since Rose was working, women still only make 82 cents for every dollar a man earns. Not only does this lower their saving potential, this can also decrease women’s Social Security benefits, which is based on income. As a proud husband and girl-dad, I will do my part to advocate for payment equality for women. But while we wait for positive change, as a financial adviser, I believe women can use a strategic wealth plan to maximize their savings.

When it comes to saving enough for everyday needs, women can use low-risk investment tools like CDs and money market accounts to make their money stretch further, ultimately creating more room in the budget to save for long-term goals, like retirement.

When saving for retirement, some might consider more tax-efficient savings vehicles outside of the traditional 401(k) or 403(b). A Roth IRA lowers future tax liability through tax-free growth and tax-free withdrawals in retirement, which is especially important, as many experts predict taxes will rise to help pay for our national debt. For many, taxes will be the greatest expense in retirement, but using tax-efficient strategies now can help lower that risk.

It’s paramount to understand what kind of yield your investments need to earn to meet your retirement income needs, but how much is “enough” is different for each person. To avoid taking on too much risk or not investing aggressively enough, I believe it’s key to work backward by calculating estimated retirement expenses first, taking into account inflation and projecting longevity to at least age 95. Those calculations are then used to create a wealth income plan that sets accurate savings goals and sufficient investment strategies. How can someone invest their money if they don’t know the exact yield they need to reach their retirement goals?

2. Understanding Their Financial Picture

My other grandmother, Lilian, came dangerously close to running out of retirement savings, living until just before her 98th birthday. When my grandfather passed away unexpectedly at age 76, Lilian lost one Social Security benefit, and at the same time, she began providing financial assistance to her youngest son, who was diagnosed with multiple sclerosis.

Unfortunately, many women fall into the sandwich generation as they put their own financial security at risk by taking care of the children below them in age and the aging parents above them. It also didn’t help that Lilian lacked any investment acumen, because her husband, Harry, had always taken care of their finances.

Women should feel empowered to take control of their financial future, but time and time again, I work with widows who are left in charge of their money without a plan or without a full understanding of their financial picture. By 2030, female Baby Boomers are expected to control the majority of wealth, totaling about $30 trillion in assets. With such a great wealth transfer expected, it’s critical that women are equipped to navigate their financial plan with confidence.

Financial advisers can act as a bridge when one spouse passes away, because we have a full understanding of our clients' financial plans. As a trusted adviser, I can also serve as an educational resource. Blogs, books and other tools to improve financial literacy can naturally help women become confident with finances. Knowledge is power!

3. Planning for Long-Term Care

Rose's and Lilian's longevity led to more years of high health care costs. Recently retired women can expect to pay at least $157,000 in health and medical expenses in retirement, which is 30% more than what was needed just a decade ago. And costs are likely to continue rising!

Rose had no long-term care (LTC) insurance policy to help her pay for five years of in-home care, and Lilian's traditional LTC policy did not stretch far enough to cover her in-home needs. Women should consider a LTC insurance policy and carefully choose one that is sufficient to provide for all their potential medical costs.

Traditional LTC plans charge policyholders a yearly premium in exchange for a certain amount of benefits, but yearly premiums can (and often do!) increase over time. Plus, if it goes unused, there is no benefit left behind to create a legacy for any beneficiaries, despite all the money spent on the policy.

A hybrid LTC policy creates a pool of benefits for the policyholder based on how much they want to contribute, and there are no premium increases. The premium creates a pool of LTC benefits that grows each year the policy is unused. These policies also have the ability to be surrendered at any time with a "return of premium" feature. They also come with a death benefit worth more than the premiums paid if the LTC benefits of the policy are never used, ensuring that no money is wasted on the policy.

Purchasing a life insurance policy with a death benefit can also act as a LTC policy. Many insurance companies allow policyholders to use 50% to 100% of their death benefit during their lifetime for any LTC, creating a sort of "living benefit" for policyholders. As a life insurance policy, this also provides a death benefit to any beneficiaries.

Another recommendation for women is to contribute to a health savings account (HSA) to combat longevity and health care challenges. HSAs offer a triple tax benefit: Money can be saved tax-free, it grows tax-free, and funds used for medical expenses can be used tax-free. Plus, there is no required minimum distribution (RMD) in retirement, and HSA dollars can be used for nonmedical expenses without penalty after age 65.

It's equally important to create guaranteed sources of income to use in retirement that work alongside strategic withdrawals and Social Security. For example, purchasing a fixed indexed annuity can create a lifetime of guaranteed income to use in retirement that will help combat longevity risk.

Longevity should be something to be celebrated, but unfortunately, it became a huge financial burden for my grandmothers and their loved ones. May their stories act as a valuable resource for future generations and an example of how important it is to have a comprehensive wealth plan that proactively plans for all your potential retirement needs and protects against longevity risk.

NYSUT NOTE: Long-term care is a vital part of retirement planning, especially for women. Which is why NYSUT members have several options when it comes to long-term care insurance. Members and their families have access to the NYSUT Member Benefits Trust-endorsed New York Long-Term Care Brokers program, which offers a team of dedicated long-term care planning specialists who will help you research the different long-term care insurance providers and products and help you determine what the best option is for you.

NYSUT members also now have access to the new Universal Life Insurance with Convalescent Care Benefit program, which combines a life insurance benefit with Convalescent care benefits that can be used to help pay for long-term care. Visit the NYSUT Member Benefits website for more information on all the insurance options currently available to NYSUT members.

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Bradley Rosen is the owner and president of Longevity Financial, an independent financial professional with over 24 years of financial planning experience. Bradley provides each client with a customized Design for Life By Longevity Financial® plan that encompasses each part of their financial picture, including investments, insurance, taxes and legacy planning. He is passionate about creating longevity with one's finances and prioritizing holistic health, both physically and financially. His unique approach to retirement planning is the result of watching both his grandmothers outlive their retirement income. For his dedication to educating and empowering women, he was awarded the Thelma Gibson Award in 2015. He has been featured in Forbes and on the local CBS, NBC and FOX TV news affiliates in his new hometown of Atlanta.

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