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Income Insights: Gender Retirement Gap

Women need to save almost twice as much

Women need to save an additional $667 each month for parity

The Gender Retirement Gap

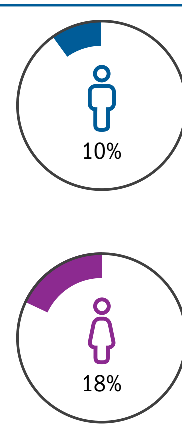
The Gender Retirement Gap is not only vast, it is long lasting. Women face hurdles during their savings years and then face a second, equally difficult, set of challenges throughout retirement. A cursory view of the U.S. retirement system may appear to be gender neutral; however, after carefully reviewing the data, the Gender Retirement Gap and the significant barriers women face is clear.

We live in an era where gender equality is increasingly becoming the norm, but we also happen to live during a time with ample access to the data and tools necessary to draw conclusions. The data enables us to identify the obstacles women face during their savings and retirement phases. The tools enable us to provide the clarity necessary for resolving the problem at hand.

It is logical to believe that two recent college graduates, one male and one female, starting in the same position for the same company at the same salary, each saving the same amount for retirement, would be equally well off at retirement. Unfortunately, that is not the case. In order for the two recent college graduates to have the same amount of money saved for retirement, the man would need to save 10% of his salary, while the woman would need to save 18%. Generally speaking, women work for less years and receive fewer salary increases among other issues.

Exhibit 1: Illustration of the savings rate necessary for parity at retirement

	Gender Retirement Gap	
	Women	**Men**
Annual gross pay	$100,000	$100,000
Retirement savings rate	18%	10%
Net of retirement	$82,000	$90,000
Monthly paycheck	$6,833	$7,500



Source: TIAA

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Women are anything but average

Women face three key retirement issues during the savings phase

Many companies develop the same qualified default investment alternative (QDIA) retirement strategy for all workers. They focus on the national averages or the average experiences of their own workers by applying saving rates, investment choices and retirement spending strategies without regard to gender differences. Intuitively this may seem fair, but it masks the reality that many women face.

Relying on the average career path to design a retirement strategy can certainly benefit some people; however, this can also lead to a false sense of security for many women.

Throughout their careers, when both men and women are supposed to be saving for retirement, women face greater challenges than men.

1. Women work fewer years over the course of their lives.
2. When they do work, women earn less compensation than men.
3. Women take on less investment risk, which results in lower investment returns.

Women only work 75% of the years that men work

1. Fewer years in the workforce

Many retirement strategies assume workers will be in the workforce for 40 years. The data demonstrates that neither men nor women tend to work that many years. Frequently, women take time off to have children, and then do so again later in life to care for elderly parents. These career breaks add up, resulting in women spending significantly fewer years in the workforce.

As the table below highlights, while men work an average of 38 years, women only average 29 years. This nine-year shortfall means that women work 75% of the years that men work. This fact alone makes it immediately obvious that women need to save a higher percentage of their salary while they are working.

Exhibit 2: Lifetime years in the workforce by gender

	Men	Women
Full employment	40	40
Childcare	(0.5)	(5.5)
Elder care	(0.6)	(1.2)
Expected employment	39	33
Social Security data	38	29

Source: Pew Research Center May 2014 and the Social Security Administration.

Women increasingly take career breaks to care for their families

The past decade has marked an important shift in American culture. The number of women opting to leave the workforce to care for their children is on the rise. According to the Pew Research Center, at the turn of the century there were 23% stay-at-home mothers (SAHM). Today the number is nearly 30%. The largest share of SAHM are married women with working husbands. This may seem surprising given the increase in educational achievement over that period. In 1970 only 7% of SAHM were college graduates, compared to 25% today.

Leaving the workforce to care for children is not the only career break that women typically take. Later in life, women find themselves leaving the workforce again to care for elderly parents or in-laws. During the mid-career phase, while many men are enjoying salary increases, women are spending twice as much time as men caring for their families.

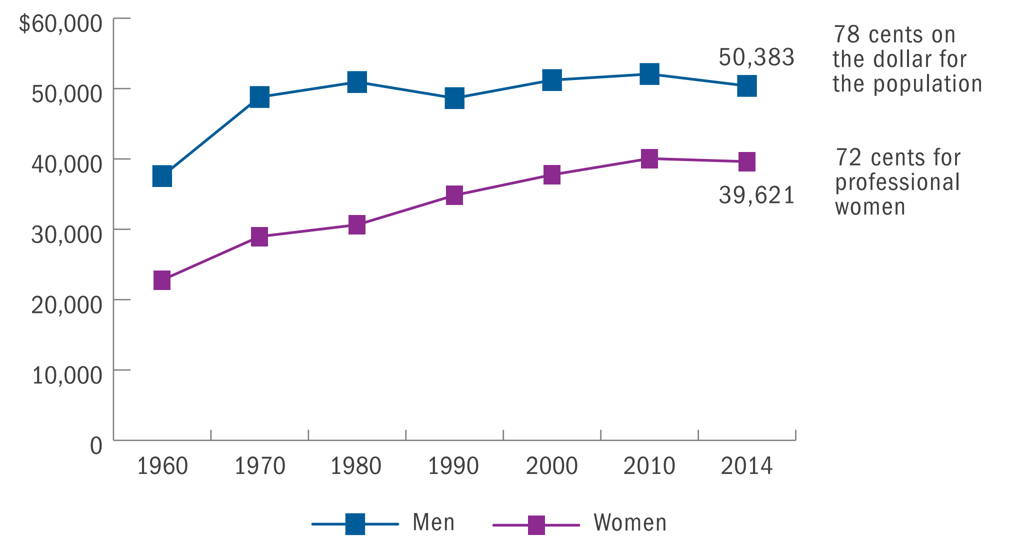
2. Gender pay gap

Women continue to earn about 75 cents on the dollar relative to men

Deemphasizing careers during both the beginning and middle phases impacts more than just total years worked, it also limits the growth of pay for women. During periods when women are working, the gender pay gap persists.

According to the U.S. Census Bureau, in the general population, women still only earn 78 cents on the dollar relative to men. Women classified as professionals are even worse off. Professional women earned $996 per week in 2015, compared to professional men who earned $1,383 or stated another way, 72 cents on the dollar.

Exhibit 3: U.S. median annual income by gender (1960-2015)



Source: U.S. Census Bureau, Income and Poverty in the United States—2014, September 2015

3. Women tend to be more risk averse

Women hold more cash than men, dampening their investment returns

Many women choose not to leave the workforce and are fortunate enough to find jobs where the gender pay gap is immaterial. In spite of these successes, these women face yet another hurdle; women can be much more risk averse than men and therefore invest somewhat differently. They trade and rebalance their portfolios less often, seek to protect the assets they have and are much less likely to endure risk in hopes of generating higher returns.

One of the keys to long-term investment success is the ability to take well-chosen risks, notably equity risk, the principal source of long-term investment returns. In this regard, women are not particularly effective investors. Since the introduction of the Pension Protection Act and qualified default investment alternatives (QDIAs), the investment return differences between men and women in tax-deferred retirement accounts, such as 401(k)s and 403(b)s, have been minimized. This is most likely due to the widespread popularity of people selecting the default option and taking no further action.

However, outside of their retirement accounts, women tend to hold considerably safer assets, such as cash and money market funds, whereas men tend to hold more stocks, mutual funds and exchange-traded funds (ETFs). This is important because many households have a lot of assets that are not tax deferred. With this difference in risk preferences or mix of investments, women will almost certainly underperform over long periods of time, resulting in smaller retirement balances.

Exhibit 4: Household asset allocation by gender as of 2014

Category	Men	Women	Men minus Women
Cash	15.6%	20.6%	-5.0%
Variable annuities	3.1%	5.1%	-2.0%
Fixed annuities	4.4%	6.3%	-1.9%
Certificates of deposit	5.8%	7.1%	-1.3%
Other investments	2.7%	3.9%	-1.2%
Bonds	5.0%	5.3%	-0.3%
Exchange-traded funds	2.8%	2.2%	0.6%
Stocks	21.1%	16.6%	4.5%
Mutual funds	33.0%	27.5%	5.5%

Source: Cogent Reports 2014 Investor Brandscape Custom Data Tables, 2014

Saving early and often for retirement is more critical for women

Men play catch, women play catch-up

We have highlighted three primary hurdles that women face while saving for retirement: fewer years in the workforce, lower levels of compensation and risk aversion. Collectively, these make saving for retirement a complicated task. Many women simply use averages or the default options offered by their company's retirement plan. Unfortunately, women who simply follow the default do not discover that they have inadequate savings until they are well into their careers or worse, until after they are retired.

For a man and a woman to have an equal amount of savings at the moment of retirement, a man would need to save 10% of his salary, whereas a woman would need to save 18% of her salary. To put this in perspective, for professionals earning $100,000 a year, closing the Gender Retirement Gap requires that women save an additional $667 a month.

Unfortunately, this additional savings only results in economic parity at the moment of retirement. Throughout retirement, women face a second set of hurdles and saving an equivalent amount of assets is simply not enough.

Women face additional expenses during the retirement phase

Many couples plan their retirement finances together without immediately recognizing how much more expensive retirement will be for women. Unlike other expenses throughout the course of their lives, the hurdles women face in retirement are not easily managed.

Financing retirement needs is distinctly different for women

4. Women live longer.
5. Women spend more money on healthcare.

4. The longevity illusion

The hidden cost of longevity

On one hand, many of us strive to live longer lives. On the other hand, there is an implicit cost and risk of outliving your assets with each passing birthday.

It's no secret that women live longer than men. Once they reach age 65, women outlive men by 2.5 years with life expectancies of 85.5 and 83, respectively. Frequently, women interpret these statistics to mean they will live 2.5 years longer than their spouse, which is not generally the case. This would only be true if the spouses were the same age. In the US today the average age spread between spouses is 2.1 years.

Naturally, this leads to another false conclusion that women will live alone for 4.6 years. Examining the Social Security data closely, we discover that after a couple reaches the age of 65 about 1/3 of the men will outlive their wives, whereas 2/3 of the women will outlive their husbands. The surprise in the findings is that after losing a spouse the surviving spouse will live another decade.

Scenario	Lives an additional
Husband outlives the wife	8.8 years
Wife outlives the husband	11.5 years

Source: 2016 Social Security actuarial tables

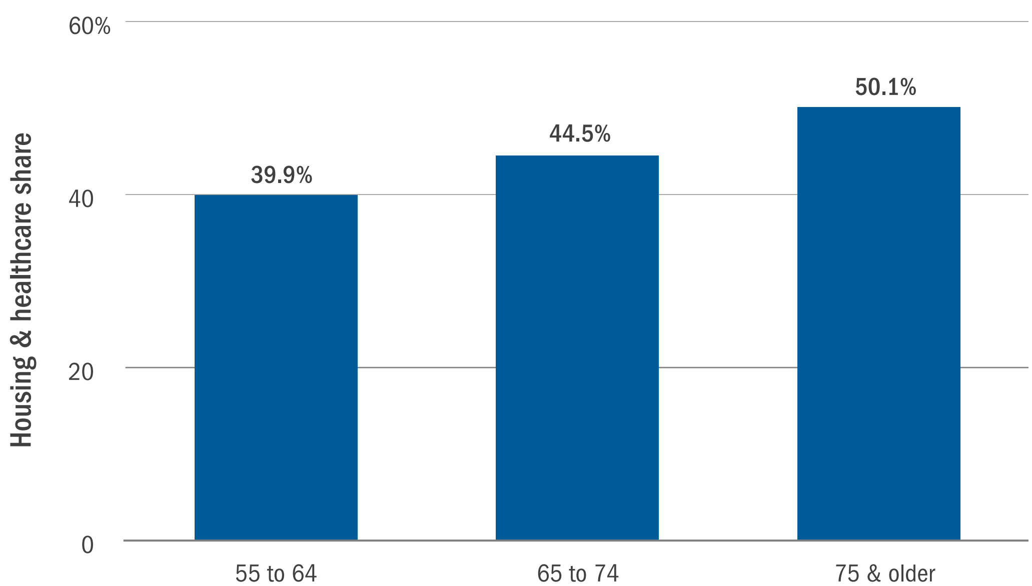
Women with husbands who are 2.5 years older should expect to be the sole breadwinner of their households for over a decade. The expenses of living alone are dramatically higher than when two people have the opportunity to share household expenses.

5. Higher healthcare expenses

Healthcare and housing costs dominate budgets

Healthcare and housing expenses in retirement are much higher than most people expect. They not only represent a large portion of household expenses at retirement, but they continue to dominate budgets as we age. While housing costs can be reduced by downsizing, healthcare costs are not as easy to manage. Unlike housing, healthcare expenses increase with age. This is a major cause for concern as some of the most expensive illnesses tend to occur later in life.

Exhibit 5: Healthcare and housing as a share of retirement budget



Source: LIMRA Secure Retirement Institute, Annual Fact Book 2015

Women spend 7% more on healthcare than men

It is easy to think that the only reason women spend more money on healthcare is because they live longer. The data suggests there is more to the story. According to the Department of Health and Human Services, from the age of 65 forward men will spend $18,251 on healthcare, whereas women will spend $19,558. This seven percent additional spending on healthcare can be attributed to women being more likely to have periods where they suffer through a chronic illness and, as the previous section highlights, they are much less likely to benefit from a spouse-caretaker. They also forecast that healthcare expenses will rise at a rate of 5.8% per year between 2015 and 2025, a growth rate that will impact the financial security of many women.

Gender Retirement Gap solutions

Simple solutions at your fingertips

Today, more women earn college degrees than men. As the ratio of women in the workforce continues to improve, plan sponsors should consider designing their plans and QDIAs to meet the needs of this increasingly important segment.

Women enter retirement facing significant headwinds. The economics of retirement for women is starkly different than for men. Women work fewer years, at lower levels of compensation and earn lower returns with their savings. These factors combine to create a resource constraint for women in their golden years. In spite of the fact that women will have fewer economic resources at their disposal, they will incur higher expenses during the retirement phase of their lives, the most prominent one being healthcare.

Despite these odds, countless plan sponsors successfully prepare women for financial security in retirement. There are many possible strategies that could prepare employees for retirement. Below are three noteworthy solutions that are easy to implement.

Simple solutions include:

A. Higher contribution rate; employee education

B. QDIA with higher levels of risk

C. Offering guaranteed lifetime income in plan

A. Higher contribution rate; employee education

Save early and often

While a higher contribution rate could benefit both men and women, it could prove to be extraordinarily beneficial for women in particular who do not spend as many years in the workforce. The benefits of increasing the contribution rate could also improve a company's ability to recruit and retain talented women.

Those entrusted with designing and implementing the retirement strategies of participants may want to consider gender specific educational material. Women could be particularly well served by learning that their retirement contributions will be limited should they decide to be a stay-at-home mother. The Internal Revenue Service currently sets two distinct annual maximum contribution levels for retirement savings. For women with earned income, that level is relatively high; $18,000 in 2016. On the other hand, for women who are taking a break from the workforce, that level is incredibly low; $5,000 in 2016. For almost all women, even though the word "maximum" is used, saving the maximum may prove to be insufficient.

As we emphasized throughout, each woman faces her own unique set of financial circumstances. The importance of working with an administrator who provides trusted advisors to meet with your employees cannot be underscored enough. Trusted advisors might very well encourage women to save more than the "maximum."

B. QDIA with higher levels of risk

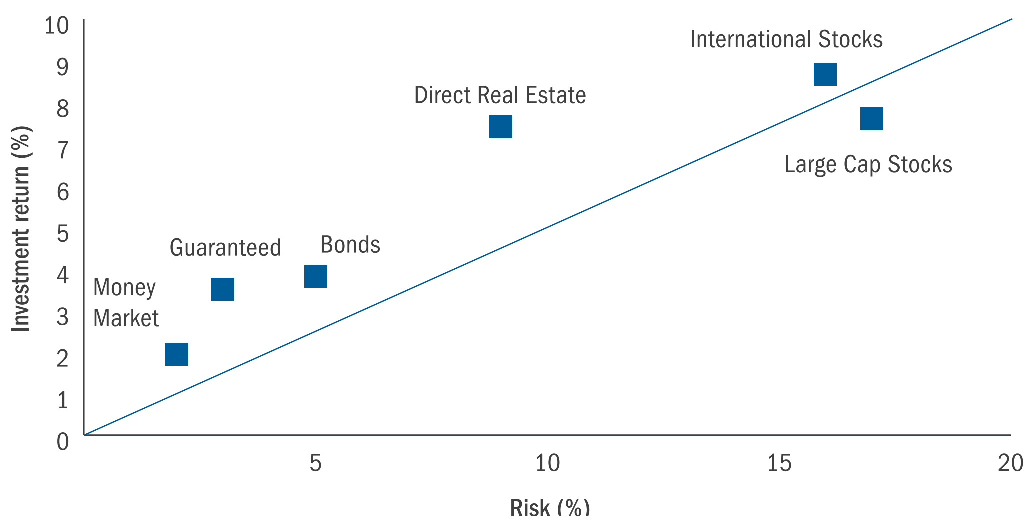
Menu options that prepare workers to retire on a timely basis

Companies that employ a majority of women should consider qualified default investment alternative (QDIA) options that have marginally higher levels of risk. By taking more risk and investing in higher returning assets such as: large cap stocks, international stocks and real estate, women have the potential to improve the performance of their investment portfolios, resulting in higher levels of lifetime income.

Given the length of time women will need to rely on their savings, women can afford to take on higher levels of well-chosen risks, notably investing in equities, the principal source of long-term investment returns. As the chart below indicates, there are several asset classes that offer higher levels of return per unit of risk for women to consider.

Plan sponsors who offer bonds in their menu may want to note that guaranteed lifetime income offerings have the potential for lower levels of risk coupled with potentially higher levels of return.

Exhibit 6: Risk/Return efficient frontier



Source: TIAA

Women have an economic edge

C. Offering guaranteed lifetime income in plan

Guaranteed lifetime income provides employees with the opportunity to know precisely how much income they will receive in retirement. As employees mature and begin to consider the timing of their retirement, this certainty enables them to leave the workforce as soon as they are economically prepared, creating opportunities for the next generation of workers.

Many financial advisors suggest obtaining guaranteed lifetime income to cover essential expenses in retirement. Plan sponsors should note that in plan lifetime income options are commonly offered without a commission. This could provide a tremendous value for employees.

Even though women have longer life expectancies, the Supreme Court held that when companies offer lifetime income through their retirement plans they must use unisex life expectancy tables. The net result is that men and women of the same age with the same savings will receive the same dollar amount each month by opting into a lifetime income plan offered through their company.

All women, especially those with fewer resources at their disposal, should take advantage of the unisex actuarial tables available through their companies and protect themselves from outliving their assets. Women who decide they want lifetime income outside of their company's retirement plan will quickly discover that without the benefit of the Supreme Court decision, they will receive a smaller monthly paycheck. This marks a unique opportunity for women to experience an economic advantage in the workplace based on gender.

The Gender Retirement Gap in the 21st century

Today marks a pivotal point in the history of the U.S. retirement industry. Defined contribution plans now dominate the retirement landscape, making employees responsible for developing their own savings and spending strategies. Changes in income can make it very difficult for people to maintain the same standard of living. For women this can be particularly challenging. However, when armed with the data and tools presented here, women can help themselves achieve financial security.

Women in the workforce have undergone an evolutionary process, with a revolutionary impact. Women make tremendous contributions to our global economy, yet continue to face the Gender Retirement Gap. By implementing the solutions noted above, women can begin to narrow the Gender Retirement Gap and reduce the risk of outliving their assets.

"I resolved to stop accumulating and begin the infinitely more serious and difficult task of wise distribution."

–Andrew Carnegie

About Diane Garnick

Diane Garnick is Managing Director and Chief Income Strategist at TIAA. An industry thought leader with two decades of experience structuring retirement and investment solutions, Ms. Garnick is responsible for advancing the strategy, development and modernization of TIAA's lifetime income solutions across the firm's portfolio of products and services.

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