



Financial Gerontology

WHAT WORKING WOMEN WANT: CROSSING THE GENDER GAP TO A SECURE RETIREMENT

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Most of us recognize that the economic status of women has improved over the past several decades. A lot of progress has been made. More women are educated, are in the labor force, and are earning higher wages than in the past. And yet, women continue to face a major challenge when it comes to a secure retirement and old age.

Let's take a look at some of the trends, both positive and negative, that are impacting women as they plan their financial future.

Labor Force Participation among Women

The good news is that more women are working, increasing their earning power and financial independence. According to the U.S. Department of Labor, 60.2% of women were in the work force in the year 2000 compared to 74.7% of men. This is quite a contrast to 1950, the era of the nuclear family romanticized by television programs like "Ozzie and Harriet" and "Leave It to Beaver." At that time, 86.8% of men were in the workforce, while only 33.9% of women worked.¹

Women's job tenure has also increased over time. For those aged 45 to 54, for example, the median job tenure for women was 7.3 years in

2000 compared to 4.0 years in 1951.²

However, while these figures point to a positive upward trend, it is not an entirely rosy picture. No matter how you slice it, women's earnings remain lower than men's, and this has important implications for retirement security.

Women and Earnings

The earnings gap between men and women has been decreasing slightly each year, which is a positive trend. According to the U.S. Census Bureau, in 1995 a woman earned 71.4 cents for every dollar a man earned, compared to 2003 when women increased their earnings to 75.5 cents for every dollar. Looking at it another way, the median income for women working full time in 2003 was \$30,724, compared to \$40,668 for men.³ But even if we consider the upward trend, the earnings gap remains, and women are still far behind their male counterparts. According to the Women's Institute for a Secure Retirement (WISER), the disparity in earnings results in a net loss for women over a lifetime of more than \$250,000.⁴

There are several reasons why the earnings gap exists. Even though times are changing to some degree, women remain the ones who are more likely than men to move in and out of jobs because of childcare responsibilities. They often are the "trailing spouse," moving when their husband is relocated or takes a new position. And they are also the likely ones to drop out of the workforce or reduce the number of hours they work so they can pro-

vide care for elderly parents or other family members. According to a study by sociologists at Rice University, women who assumed caregiver roles were 2.5 times more likely than non-caregivers to live in poverty and 5 times more likely to receive Supplemental Security Income.⁵

Widows, divorcees and single women appear to be at a particular disadvantage when it comes to retirement security. Statistics show that female-headed households earn less than other households. The median income earned by a female-headed household is \$20,000, about half of that of all American households—\$39,000.⁶ Women in these households have not fared well in retirement. Approximately one in four is poor or nearly poor and at age 85, it is one in three.⁷

Pensions and Retirement Savings

In the past few decades, employer-sponsored pension plans have shifted from the traditional defined-benefit plan to the defined-contribution plan—the 401(k). This shift has implications for retirement security for both men and women as the burden of investment decisions falls to the individual. And the shift, according to the Center for Retirement Research at Boston College, has an even greater impact on working women.⁸

The positive aspect of the shift to 401(k) plans is that these plans benefit short-tenured workers. This could be better for women as they are more likely than men to change jobs and do not stand to lose benefits that

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are accrued through traditional pension plans. The 401(k) enables them to take their full accumulations with them when they move on. However, the consequences are more negative when women retire.

A traditional pension plan pays out the same amount to both women and men with comparable work histories without factoring in longevity. The payments are guaranteed for life no matter how long a person lives. Women will find a different situation with 401(k) plans. First, they will have to make sure their 401(k) monies last a lifetime, with the knowledge that, based on their increased longevity rates, they need to stretch them over a longer period of time than men. And if they choose to annuitize some of the monies they accumulated, their monthly benefit payout will be calculated at a lower rate than men because of the differing longevity rates.

The shift to 401(k) plans also puts women at risk in another area. Under traditional defined-benefit plans, a wife has a legal claim on her husband's benefit. It is mandated by the government that a spouse receive a joint-and-survivor annuity at retirement, unless the spouse specifically opts out. There is no automatic claim with 401(k) plans.⁹

The other bad news, of course, is that fewer women than men have any type of pension at all. According to WISER, about half of all women work in low-paying jobs without pensions.¹⁰ And those who do have pensions receive only about half the amount that men do. These factors put women in a vulnerable position at retirement.

The Dilemma of Longer Life

Longevity, it appears, is a double-edged sword. Women live longer than men but in return for extra years, they appear to pay the price in retirement security. Women are more likely to be at risk financially when they become widows, and they could find themselves alone in their older age. 45.2% of women over age 65 are widows compared to 14.4% of men. The percentages increase dramatically with age.

Ages	Women (% widows)	Men (% widowers)
60-64	15.7%	5.4%
65-69	25.7%	8.0%
70-74	37.3%	11.7%
75+	60.6%	23.6%

Source: U.S. Census, "Marital Status of People 15 Years and Over by Age, Sex, Personal Earnings, Race and Hispanic Origin," March 2000.

Women tend to marry men who are older than they are, which increases their chances of outliving them. And they are not as likely to remarry. Men who are widowers do remarry, and often to women younger than they are.

As a result, more older women than men live by themselves. 39.6% of noninstitutionalized women age 65 and over and 17% of men in the same age group live alone. The proportion of people living alone increases with advanced age. Among women age 75 and over, 49.4% live alone.¹¹

The likelihood of increased frailty and the need for long-term care increases with age. Because women live longer, they are especially vulnerable, particularly those who are on their own

with no spouse to care for them. And the fact that they find themselves alone with less money makes them more likely to end their years in a nursing home rather than in their own home.

Those who do not have sufficient money to pay for long-term care must rely on Medicaid to fund these costs. But the funding for round-the-clock long-term care that Medicaid provides is primarily delivered in nursing homes, not at home. Put all this together, and it is no surprise that among nursing home residents age 65 and over, 75% are women.¹²

A Positive Prognosis

Fortunately, there is a bright side to this picture. As mentioned earlier in the column, more and more women are working, and their earnings have been increasing too. Though there is still a glass ceiling, there are growing numbers of women in senior positions in corporate America. And women are now achieving educational parity with men and even exceeding it.

57% of bachelor's degrees and 59% of master's degrees were awarded to women in the academic year 2001-2002. Women earned 47.3% of professional degrees such as law, medical and dental. And 57% of undergraduate degrees in accounting were awarded to women.¹³

Viewing the glass as half full, earnings among those women with higher incomes have risen substantially. The Employment Policy Foundation conducted an analysis of the Current Population Survey data from the U.S. Census and found that in 2001, one in every 48 women working full time

earned over \$100,000, increasing from one in 143 in 1991. The number of women earning over \$60,000 nearly tripled during that period. And while the numbers of men making these sums also increased, it was at a slower pace.¹⁴

These trends bode well for the financial services industry. Women already represent a formidable force and a significant market. Women have economic clout and there is evidence that some are not afraid to reverse traditional roles. A recent Work and Family column in the *Wall Street Journal* may signify the wave of the future. It was titled “As Moms Earn More, More Dads Stay Home: How to Make the Switch Work.”¹⁵ The writer described several couples who have made the decision that the wife will be the main breadwinner while the husband stays home to care for the children. Some have taken this path by choice, and others because of the realities of the economy. While some couples go through counseling to adjust, others take it all in stride—the traditional roles of husband and wife based on gender are beginning to blur and will continue to do so well into the 21st century.

Financial Services for Working Women

It is clear that women—and working women in particular—represent an important market for financial service professionals. As the education and earnings gaps close, many women have become savvy investors and planners. Yet, working women are still less confident than men that they will have enough money to live comfortably in

retirement, and fewer women than men have done a retirement needs calculation.¹⁶ Many would benefit from increased knowledge and financial advice to assure that they will have adequate assets and income when they retire, are prepared for future long-term care needs and, if married, have a family estate plan that will provide for them and their children if needed.

Estate Planning

As noted above, women do drop out of the workforce to raise children, to move to another location if their spouse is relocated, and to care for elderly parents. For women in this situation, it is critical for them to think through the financial ramifications should their husband predecease them. And as we have seen, the longevity tables indicate that this is a probability. Being the beneficiary of an adequate life insurance policy can help to assure women a secure retirement.

Long-Term Care Planning

Because of the longevity rate, women are more likely than men to become frail and develop conditions that require assistance with activities of daily living. Research indicates, for example, that nearly 50% of those over age 85 (the majority of whom are women) will develop Alzheimer’s disease or dementia.

A woman often finds herself caring for her husband when he becomes ill, but when her husband dies and she becomes infirm, there is no one to take care of her. For women in particular, long-term care insurance can make the

difference between ending up prematurely admitted to a Medicaid-certified nursing home and having the resources to make choices about where care will be delivered—whether at home, in an assisted-living facility, or in a preferred nursing home.

Long-term care insurance is a critical part of a financial plan for both husband and wife. A husband who needs care may deplete family assets, making it more difficult for the surviving spouse to pay for her own care should she need it. Those entering second or third marriages might be even more at risk. The new wife may find herself caring for her new husband and needing to pay for his care, watching her own assets disappear because they are legally intertwined with his. Some planners recommend a long-term care prenuptial agreement to be drawn up before the marriage takes place. Both wife and husband would agree to buy long-term care insurance and agree upon their care plan before they tie the knot. Looking at the longevity tables, this approach has a greater probability of being valuable to women and should be taken seriously.

Financial Planning

Increasing numbers of women are in the workforce, earning money and investing it in 401(k) plans and other vehicles. How husbands and wives handle their savings and investments as a family unit may vary. Contrary to male-female stereotypes, it isn’t surprising that in many households, women in fact are more financially savvy than their husbands about invest-

