



THE FEMALE FACTOR

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Why Women Are at Greater Financial Risk in Retirement
and How Annuities Can Help

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Executive Summary

If you are a young or middle-aged woman in the United States, you may not realize that simply being a woman in our society may jeopardize your future financial security.

Here are the hard facts:

- Women work an average of **12 years less** than men do over their lifetimes due to family caregiving responsibilities. Fewer work years translates to fewer years saving or participating in an employment-based retirement program.
- Women earn **77 cents for every dollar** earned by men. The median earnings of full-time working women are about \$10,000 less than those of working men. When part-time workers are included, the median earnings for all women drop to \$13,000 below men's earnings. As a result of lower earnings, the median income in retirement for women **is only 58 percent of men's**.
- Women are expected to live **80 years from birth**, compared to men's life expectancy of 74 years. The number of women over age 85 is expected to triple over the next 40 years, which means retirement savings will need to stretch over more years.
- Women in particular are living longer than ever and are likely to spend some of their retirement years alone due to widowhood or divorce. For women age 85 and older, **only 13 percent are married** with a spouse present.
- Women who are living alone face a much greater risk of declining living standards or poverty in old age.

This adds up to a problem that's bigger than it may initially look.

Today, 11.5 percent of women age 65 and over live in poverty. That translates into more than one out of every 10 women retirees living on less than

\$10,000 per year. For single women that number rises to one out of every five women.

You might assume that while older workers today face some real problems, those who are younger and further away from retirement have less reason for concern. After all, younger women have more time to save for retirement and have access to more financial information and expertise than the generations before them.

Yet having more time doesn't do much to alter the equation of fewer work years, less income, and longer lives that contribute to a greater need for retirement planning for women. And, despite increasing levels of education and financial independence, women today don't indicate any more comfort with financial planning than previous generations. A recent study reported that about half of the women ages 35 to 54 are not very knowledgeable about investing.¹

The Female Factor offers an analysis of women's economic position in retirement, laying out the factors that determine whether they will achieve financial security in their "golden years."

This recently-updated report discusses lifetime annuities as an important retirement income security tool for women. When combined with Social Security and other retirement income, an annuity can help cover basic living expenses while addressing the risk of outliving assets. Many workers today face significant retirement risks, but women are especially vulnerable. We need to recognize how all the factors add up, and take action to address the all too real problem millions of women face when it comes to saving for retirement.

This report aims to focus the attention of women, their families, and policymakers on issues and solutions to the financial disadvantages that put retirement-age women at risk. We hope to spur individual and public action to mitigate the real risk of poverty that American women face in retirement.

¹ The Oppenheimer Funds, Inc. 2007 Women & Investing Survey, released November 19, 2007.

Limitations on Women's Retirement Income

Retirement income has traditionally come from three sources: employer-provided retirement plans, Social Security and personal savings. In order to live comfortably, most individuals rely on income from all three of these sources. Employment earnings determine the amount of money (if any) individuals and/or their spouses will have for retirement. Today, the median income in retirement for women is only 58 percent of men's.

DISPARITY IN INCOME AND WORK PATTERNS

During their working years, women earn less and have fewer full-time years in the workforce on average than men.² Women's workforce participation has gone up significantly in the last 50 years, but this trend is flattening. Women continue to come and go from the workforce at a higher rate than men. Women's earnings and work patterns lead to lower savings and retirement income, ultimately resulting in a greater risk of poverty in old age.

Here are the basic facts about women in the workforce:

- Women earn less than men;
- Women are more likely to work part-time;
- Women have shorter work tenure;
- Women are more likely to leave the workplace to serve in a caregiving role.

² U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

On average, a woman earns 77 cents for every dollar earned by a man.³ In 2006, women working full-time earned a median salary of \$32,515, compared to \$42,261 for men.⁴ The disparity is even more dramatic for minority women: \$27,535 for black women and \$22,285 for Hispanic women.⁵

This difference in pay has a striking cumulative effect. A typical 25-year-old woman with a college degree will make about \$523,000 less in wages over her lifetime than a typical college-educated man.⁶ This amount, or even a portion of it, with accumulated interest, could itself represent a comfortable retirement nest egg.

Women are also more likely to work part-time, which further reduces annual earnings and eligibility for workplace benefits, such as employer-sponsored retirement pension plans. When women who work part-time are included, the median income for all working women drops by one-third, to \$29,074.⁷

When women work for an employer that offers a retirement plan, they are less likely than men to participate in the plan because they typically have shorter job tenure. On average, women stay 4.8 years in a job, compared with 5.0 years for men.⁸ Traditional defined benefit pensions require employees to remain on the job for five years in order to vest and receive benefits at retirement. Women's lower earnings and unique work patterns typically result in less income from employer-based retirement plans, smaller Social Security benefits, and insufficient personal savings. These factors put women at significant risk for a drop in their standard of living in retirement.

³U.S. Census Bureau. *Income, Poverty and Health Insurance Coverage in the United States: 2006* (Washington, DC, 2007). Figure 2.

⁴U.S. Census Bureau. *Income, Poverty and Health Insurance Coverage in the United States: 2006* (Washington, DC, 2007). Table 1.

⁵Ibid.

⁶Institute for Women's Policy Research and the AFL-CIO Working Women's Department. *Equal Pay for Working Families: National and State Data on the Pay Gap and Its Costs* (Washington, DC, 1999).

⁷U.S. Census Bureau. Current Population Survey, *Annual Social and Economic Supplement 2006* (Washington, DC, 2007).

⁸U.S. Bureau of Labor Statistics. *Employee Tenure in 2006* (Washington, DC 2006).

Lastly, women are more likely to leave the workforce at some time during their careers to serve as caregivers for their families, whether raising children or taking care of elderly relatives. One study cited by a 2007 Government Accountability Office report found that almost half of women who worked during their first pregnancy took unpaid leave, and nearly 25 percent quit their jobs.⁹ According to the Social Security Administration, in the year 2000, women retiring at age 62 worked an average 32 years, while men had worked 44 years.¹⁰ Fewer years in the workforce translates into fewer years saving or participating in an employer-provided retirement plan.

EMPLOYER-SPONSORED RETIREMENT PLANS

As demonstrated above, a retirement benefit offered to workers through their employers is an important way to prepare for retirement. Employer-sponsored retirement plans allow individuals and employers to contribute pre-tax dollars for the employees' retirement savings. Employers that sponsor plans typically offer a traditional defined benefit plan (pension plan) and/or a defined contribution plan (such as a 401(k) plan).

Women and men who work full-time are the most likely to have access to an employer-sponsored plan. Yet, women generally earn a smaller benefit because they earn less. In 2004, only 22 percent of women over age 65 received income from an employer-sponsored retirement plan. The median annual benefit was \$4,488. In contrast, 29 percent of men over age 65 received income from an employer-sponsored retirement plan and the median benefit was \$9,600 — more than double the median benefit for women.¹¹

⁹U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

¹⁰Social Security Administration. *Women and Social Security Fact Sheet* (Washington, DC, 2001).

¹¹Social Security Administration. *Income of the Population 55 or Older, 2004* (Washington, DC, 2006).

The traditional design of defined benefit plans provides income for life, much like an annuity. Employers provide benefits based generally on the number of years the employee worked at the company and an average of the final years of pay. Payout can be annuitized (single life, joint and survivor, and other forms) or delivered in a single lump sum payment. While this is an important source of retirement security for workers, the reality is that fewer employers offer traditional defined benefit plans today. In 1985, more than 114,000 defined benefit plans were in place; by 2005, the number had dropped to just over 30,000.¹²

In place of traditional defined benefit pensions, more employers now offer defined contribution plans, such as 401(k) plans. In 1988, 26 percent of workers participated in a defined contribution plan. By 2003, the percentage had more than doubled to 58 percent.¹³ However, even with the explosive growth of defined contribution plans over the last two decades, only 49 percent of today's workforce works for an employer that sponsors a plan of any kind.¹⁴ In addition, most defined contribution plans do not offer an annuity or lifetime payout option, which makes it more challenging to manage retirement savings.

In 2003, only 17 percent of large employer 401(k) plans offered an annuity payout option.¹⁵ However, even when defined contribution plans offer an annuity payout, most participants choose to take the benefit as a lump sum. Taking a lump sum increases the risk that the individual will either mismanage the amount or spend it on nonessential expenses early in the retirement, leaving less for later years.

¹²Patrick Purcell. Congressional Research Service. *Pension Sponsorship and Participation: Summary of Recent Trends*. (Washington, DC. 2007).

¹³Employee Benefit Research Institute. *Retirement Plan Participation: Survey of Income and Program Participation Data* (Washington, DC. 2005).

¹⁴Retirement Security Project. *Fast Fact on Retirement Security* (Washington, DC. 2006). <http://www.retirementsecurityproject.org/pubs/File/FastWebFacts20060406.pdf>.

¹⁵Hewitt Associates cited in "Annuity Payout Options Emerging in 401(k) Market," *BenefitNews.com* (March 28, 2005).

SOCIAL SECURITY

While Social Security offers guaranteed monthly payments for all Americans age 65 and older, payments represent only a small portion of required income during retirement. Even though payments are adjusted based on official cost of living increases, social security currently replaces just 39 percent of an individual's pre-retirement income. Most financial planners agree, however, that 70 to 80 percent of pre-retirement income is needed to avoid a steep decline in living standards. According to the Social Security Administration, 89 percent of older women receive Social Security benefits.¹⁶ In 2005, nearly half (46 percent) of all elderly women beneficiaries relied on social security for more than 90 percent of their income. Although Social Security is a gender-neutral benefit and has a progressive formula, the average benefit for retired women workers in 2005 was \$800 a month compared to \$1,177 received by men.¹⁷ The primary reasons for this difference are women's lower earnings and higher incidences of time out of the workforce.¹⁸

When widowed, a wife is eligible to collect Social Security based on her own work record or her spouse's, generally receiving the higher amount. A divorced woman can collect a spousal Social Security benefit based on her ex-husband's work record, provided the marriage lasted at least 10 years and she is not remarried when she claims benefits.

PERSONAL RETIREMENT SAVINGS

Add up the amounts that many women can expect to receive from Social Security and employer-provided retirement plans, and it becomes easier to understand why personal savings are so important.

¹⁶Social Security Administration. *Income of the Population 55 or Older, 2004* (Washington, DC, 2006).

¹⁷U.S. Census Bureau, Current Population Survey. *Annual Social and Economic Supplement 2006*. (Washington, DC. 2007).

¹⁸U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

To encourage individuals to prepare on their own for retirement, the federal government has created tax incentives to promote savings through such vehicles as individual retirement arrangements (IRAs). However, only about 10 percent of taxpayers contribute to an IRA in any given year.¹⁹

After-tax savings vehicles include certificates of deposit, savings bonds, mutual funds, and others. Other sources of retirement income may include a payout from a life insurance policy, the sale of a home, a reverse mortgage on a residence, or an inheritance.

While savings options are certainly available, today's generation of women over age 65 have little in the way of savings and investments for retirement. The Social Security Administration reported in 2004 that the median income from assets for women aged 65 and older was \$729 a year, or only about \$61 a month.²⁰ However, given a stronger focus on educating today's workers about the need to save more for retirement, younger generations of women may be able to save more. There are encouraging trends showing that as household income rises, so do investment holdings for some women – particularly married women, those in domestic partnerships, and those earning higher salaries.²¹

When planning for retirement, women must take into consideration the overall challenges to earning benefits and accumulating savings. The decisions women make over their lifetimes significantly affect their financial situations in retirement. While women are less likely to receive income from employer-sponsored retirement plans, they can, with careful planning, build other assets that they can convert into a guaranteed stream of income when they reach retirement.

¹⁹Employee Benefit Research Institute. *Rollovers Fuel Growth as IRA Assets Hit Record \$2.67 Trillion* (Washington, DC 2007). http://www.ebri.org/pdf/PR_757_09Jan07.pdf.

²⁰Social Security Administration. *Income of the Population 55 or Older, 2004* (Washington, DC, 2006).

²¹Investment Company Institute. *2004 Profile of Mutual Fund Shareholders* (Washington, DC, 2004).

Retirement Risks for Older Women

Individuals and policymakers are beginning to pay attention to a risk that many Americans will be exposed to in retirement — a dramatic drop in their standard of living. Although this risk is universal, women face a more acute set of challenges. The bottom line is that women need to be aware of these financial risks early in their careers and work to save and prepare as much as possible. Women must focus on finding an effective means of managing their savings to ensure lifetime retirement income.

LIFE EXPECTANCY

When mapping out a retirement plan, the end goal is to find a way to provide sufficient income from the first day of retirement to the last. However, one of the most challenging factors of retirement planning is predicting how long that may be. It requires dealing with a number of unknowns. While it is possible to arrive at a fair estimate of the average lifespan of Americans as a group, no one can predict with certainty how long a particular individual will live.

Life expectancy statistics can provide useful insights for retirement planning. Women, in general, live longer than men, and life expectancies overall are increasing. U.S. Census data project that the number of women over age 85 could triple over the next 40 years.²² Women today have a life expectancy of 80 years, compared to 74 years for men.

Table 1. Average Life Expectancies for Women and Men by Age

	Women	Men
at birth	79.5	74.1
at age 65	84.2	81.3
at age 75	87.1	85.1

Source: U.S. Census Bureau. *65+ in the United States; 2005. Table 3-1.*

²²U.S. Census Bureau. *U.S. Interim Projections by Age, Race, and Hispanic Origin* (Washington, DC, March 2004). <http://www.census.gov/ipc/www/usinterimproj/natprojtabo2a.pdf>.

Although most Americans have traditionally considered age 65 as a target retirement age, many people actually retire earlier. Life expectancy statistics demonstrate how essential it is for women to save for retirement, carefully consider when to retire, and manage their savings to guarantee income throughout their retirement years. More importantly, women need to be prepared with enough income to cover a longer retirement.

Another way to measure longevity is to look at the percentage of women and men expected to survive to a given age. Nearly one third of women who are 65 years old today will live well into their 90s.

*Table 2.
Percentages of Men and Women Aged 65 Expected to Live to Ages 70 and Beyond*

Survivors to Age	Men	Women
70	88%	92%
75	74	82
80	56	69
85	36	51
90	17	31
95	6	13
100	1	4

Source: *Making Your Money Last for a Lifetime: Why You Need to Know About Annuities*, a joint project of WISER and The Actuarial Foundation, 2003.

Retired women and pre-retirees underestimate the average life expectancy of someone their own age. Many also do not take into account the variability of life expectancy, and fail to consider the measures they could take to protect themselves from outliving their assets.²³

Women must save and plan for additional retirement income. Furthermore, women should prepare financially for the possibility that they will live alone at some point in retirement.

INCOMES OF OLDER WOMEN AND MEN

As a result of lower income during their working years, more time out of the workforce, and decreased opportunities to earn or vest in a pension during their working years, women have much lower income than men during retirement. Women aged 65 and older have a median income of \$13,603 – just 58 percent of the \$23,500 that retired men receive.²⁴ As Table 3 illustrates, incomes for both sexes decrease after age 75.

Table 3. Median Income of Older Women and Men by Age, 2006

Age	Women	Men
65 – 74	\$14,079	\$26,273
75 & older	\$13,302	\$20,639

Source: U.S. Census Bureau. *Annual Social and Economic Supplement, PINC-02*.

Throughout retirement, women have a higher rate of poverty than men. In 2006, women comprised 57 percent of the population age 65 and older but represented 70 percent of the older population living in poverty.²⁵

²³Society of Actuaries. *Key Findings and Issues: The Impact of Retirement Risk on Women. 2005 Risks and Process of Retirement Survey Report* (Schaumburg, IL. August 2006.)

²⁴U.S. Census Bureau. *Current Population Survey, Annual Social and Economic Supplement, 2006* (Washington, 2007).

²⁵Ibid.

More than 11 percent of women age 65 are living in poverty — and the numbers get worse with age. By age 75 and older, 13 percent of women are living below the poverty level.²⁶

Even for women who are not poor by official standards, resources may become scarce at a time when they are most vulnerable, either because they are living alone or are facing increasingly costly health and mobility problems.

Table 4. Percentage of Older Women and Men Living in Poverty, 2006

Age	Women	Men
65+	11.5%	6.6%
75+	13.0%	6.2%

Source: U.S. Census Bureau. *Annual Social and Economic Supplement 2006. POV-01.*

WIDOWHOOD, DIVORCE, AND LIVING ALONE

When planning for retirement, it is important to look at all planned sources of retirement income: to estimate how much they might be, how long they will continue, and whether they will continue for the widow or widower. Women often do not consider widowhood or divorce when planning their retirement income. Yet projections indicate that women from the Baby Boom generation women could be widows for as long as 15 to 20 years.²⁷

Women are far more likely than men to be widowed and living some part of their retirement years alone. This is primarily a result of women's longer life expectancy, combined with the fact that men frequently marry younger women.²⁸ Today, nearly 60 percent of older American women are single,

²⁶ Ibid.

²⁷ U.S. Administration on Aging. *Older Women Fact Sheet* (Washington, DC 2000).

²⁸ U.S. Census Bureau. *Number, Timing, and Duration of Marriages and Divorces: 2001* (Washington, DC 2005).

including approximately 45 percent who are widowed. In contrast, only 25 percent of elderly men are single.²⁹ Older women living alone — whether widowed, divorced or never married — face much higher rates of poverty than men do. Approximately one in five unmarried elderly women is poor.³⁰

Widowhood is often accompanied by a reduction in benefit payments. For example, the loss of a spouse results in the loss of one of the couple's Social Security benefits. Generally, both spouses receive a Social Security benefit as a married couple, but the survivor will receive only the larger benefit payment. The survivor is also likely to see a reduction in pension benefits — often by half — or payments may stop entirely. Living and health expenses typically do not decrease nearly as much.

Divorce is also a major cause of poverty for women. In 2001, 23 percent of recently divorced women had income below the poverty level. This compares to eight percent of divorced men. One study projects that by the time they reach age 67, divorced women are more likely than married, single or widowed women to be in the bottom 40 percent of the income distribution.³¹ Divorce may also reduce women's Social Security benefits. A divorced woman can claim Social Security retirement benefits based on her ex-spouse's work record, but only if the marriage lasted at least 10 years. However, most first and second marriages last less than 10 years.³²

While many women experience a decline in income as they age, they most often experience an increase in health costs. This can occur at a time when a woman's assets have been depleted due to providing care in the final years of her spouse's life.³³

²⁹ U.S. Census Bureau. *Marital Status of the Population 15 Years and Older* (Washington, DC, 2003).

³⁰ U.S. Census Bureau. *65+ in the United States: 2005* (Washington, DC 2006). Figure 4-17.

³¹ U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

³² Ibid.

³³ U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

³³ Ibid.

Women are far more likely than men to experience severe health challenges once they reach age 65. One study estimates that women age 65 and over have a 44 percent chance of entering a nursing home, compared to 27 percent for men.³⁴

Elderly women living alone are less likely to have a family caregiver, and therefore have a greater need for additional financial resources to cover long-term care costs in nursing homes or assisted living facilities.³⁵ Half of those women age 65 and older who need long-term care but have no family to care for them are in nursing homes, compared to just seven percent of those who have a family caregiver.³⁶ The average cost of nursing home care in 2006 was \$71,000 a year.³⁷

How Annuitization Can Help Women Address Retirement Challenges

NEED FOR ADDITIONAL ASSETS

A consequence of women living longer is that it is often more challenging to plan effectively to maintain their standard of living over their lifetimes. Even for women who have saved a reasonable amount, it can be difficult to stretch their income for the 20 to 30 years (or more) they may spend in retirement.

Women need to find ways to avoid running out of resources or suffering a significant decline in living standards at a time when they are most vulnerable. One way is to supplement traditional retirement sources with a

³⁴U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

³⁵U.S. Administration on Aging. *America's Families Care: A Report on the Needs of America's Family Caregivers* (Washington, DC, 2000).

³⁶Ibid.

³⁷U.S. Government Accountability Office. *Retirement Security: Women Face Challenges in Ensuring Financial Security in Retirement* (Washington, DC, October 2007).

³⁷Ibid.

lifetime annuity. However, many women are completely unaware of how annuities can directly address the risks they face. A 2005 survey showed that only 23 percent of pre-retiree women have purchased an annuity, and only 27 percent of retired women had done so.³⁸

HOW ANNUITIES FIT IN

Lifetime, or immediate, annuities are financial products that provide a guaranteed steady stream of income. When combined with Social Security and other retirement income, an annuity can help cover basic living expenses such as rent, medical bills, taxes, transportation, food, and clothing. Annuities work much like other insurance products, pooling sums from a large number of individuals and spreading the longevity risk among them.

Different types of annuities are available to meet diverse needs to provide income for life. A joint and survivor annuity will provide income for two people, usually a married couple. Upon the death of one, the surviving spouse will receive a percentage of the original amount, typically anywhere from 50 to 100 percent. The annuitants select the survivor benefit at the time of purchase. A joint and survivor annuity guarantees that a widow or widower will continue to receive a lifetime stream of payments.

With variable annuities, the purchaser receives payments based on the performance of mutual funds in which they are invested. As with any market-based investment, risk is involved. Other types of annuities can provide different payout alternatives. For example, an annuity can provide a guaranteed 10 years of income to the purchaser and beneficiary in combination, if the purchaser dies before that time has elapsed.

³⁸Society of Actuaries. *Key Findings and Issues: The Impact of Retirement Risk on Women. 2005 Risks and Process of Retirement Survey Report* (Schaumburg, IL, August 2006.)

WISER Scenario

After 25 years in the full-time workforce, Kristen struck out on her own and started a small consulting business. At age 47, she plans to run her business up until retirement, which she thinks will be at age 67. Kristen didn't have access to a 401(k) or pension when she worked for other employers, so she didn't get around to saving for retirement until now. With advice from a financial planner, she opened a SEP-IRA (a small business retirement plan that offers tax-advantaged savings) to save for retirement going forward. She plans to put away \$500 a month. By age 67, she will have an estimated \$327,000 saved.*

Kristen plans to use \$200,000 of her savings to purchase a lifetime annuity when she retires. She expects to get about \$975 a month from it for the rest of her life. Her Social Security benefit will be about \$1,200 a month, for a combined monthly income of \$2,175. Plus, she'll still have \$127,000 in savings to draw on as she needs. Kristen has a daughter who she plans to add to her annuity policy as a beneficiary. If Kristen dies within 10 years of her first annuity payment, the policy will continue to pay the benefit to her daughter until the full 10 years is up.

**Average estimated interest rate: 8%, Expected inflation rate: 3%*

It is important to recognize the key benefit of a lifetime annuity: It is insurance against experiencing a dramatic decrease in living standards. The policyholder receives payments throughout her remaining life. Women who live longer will receive more total income than those who die younger. Since women on average will receive annuity income for more years than men will, a woman will typically pay more for an immediate annuity than a man of the same age.

Lifetime annuities afford solutions to the unique challenges women face by addressing the risks of outliving assets, the financial impact of the loss of a spouse, inflation, and investment risk.³⁹ But they also have limitations. For one, if a woman has little savings or other assets she can liquidate, she will not likely be able to purchase an annuity with a sufficient monthly benefit. Additionally, once a purchaser buys an immediate annuity and payments start, the decision is largely irrevocable. Moreover, some annuities are not indexed to keep up with inflation, which could result in diminished purchasing power when receiving payments.

Nonetheless, there are newer annuity products which address some of these issues. For example, some annuities pay less at the beginning of retirement and more during the later years to address the impact of inflation. Finally, as highlighted in the scenario above, it makes sense for most purchasers to invest only a portion of one's assets in an annuity.

WISER's consumer publication, *Making Your Money Last for a Lifetime*, written in partnership with The Actuarial Foundation, provides more information on the pros and cons of buying an immediate annuity. It offers information on the types of annuities, how much to buy, and when and where to buy an annuity.

NON-QUALIFIED ANNUITY OPTIONS ARE PARTICULARLY IMPORTANT FOR WOMEN

Lifetime annuities can provide a solution for women's retirement challenges in several ways. First, annuities provide additional financial security by providing guaranteed retirement income for life, regardless of how long the person lives.

Second, married couples can plan together to ensure that, should one of them die first, the widow or widower will have continuing income for the rest of his or her life by electing a survivor benefit.

Third, annuities preclude the need to make difficult decisions on how much to withdraw each year. Many people choose to take a sum of money, invest it on their own and take regular withdrawals. This may work for certain individuals, but it carries great risk. Some may take out too much money and then run out of funds when they are older and have few other financial resources. Conversely, others may be overly cautious and take out too little, resulting in an unnecessary drop in their standard of living. A lifetime annuity takes out some of the guesswork and worrying by guaranteeing a steady lifetime retirement income.

Fourth, an annuity protects against investment risk and economic volatility. Losing investment value, especially late in life, can be devastating. With an annuity, this does not happen. A lifetime annuity provides insurance against a drop in returns and guarantees a monthly income for the rest of the purchaser's life.

This paper specifically focuses on the use of annuities outside of tax-qualified plans. There is a parallel set of issues with regard to distributions in qualified plans. While beyond the scope of this paper, it is important that policymakers also address these issues.

Conclusion

An examination of the many challenges that affect retirement security for women shows the importance of thoughtful planning. Women must carefully examine their future income needs and devise plans to supplement traditional retirement income sources when necessary. Becoming educated is an important first step toward ensuring a more secure retirement.

For women to make ends meet throughout their retirement years, they should learn about lifetime annuities and how they work to provide income for life. They can consider investing a portion of their savings, sums from the sale of a home, life insurance payments, inheritance or other sources in a lifetime annuity – the only retirement product that guarantees a steady stream of retirement income for life. For this reason, policymakers should consider legislation to create incentives for the use of lifetime annuities, providing women with an additional tool to maintain an adequate standard of living when they are most vulnerable.



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Americans for Secure Retirement is a broad-based coalition of groups working to ensure that every person has an adequate standard of living throughout his or her retirement. Its members represent women, farmers, minorities, self-employed, small businesses, insurance industry and taxpayers – among others. We're working with policymakers to avert a looming retirement crisis by making it easier for retirees to secure a guaranteed paycheck for life through products like life annuities.