Planning for Retirement:

Helping to address the unique needs of women

As women pursue their goal of having enough money to last throughout their lifetime and beyond, they often face unique challenges. From greater healthcare costs to balancing work and multiple caregiving roles, women have different needs and perspectives when it comes to retirement planning. This whitepaper takes a closer look at these unique challenges and provides ways in which a woman and her financial advisor can work together to build a retirement portfolio that provides her the retirement lifestyle she wants, despite these challenges.

At home and in the workplace, the role of American women has dramatically evolved over the last century—and even the last decade. Women are postponing marriage and now earning college and professional degrees in greater numbers than men. They also have higher incomes than ever before. In fact, while women ages 55 to 64 only earn 75.1 percent of what men the same age earn, women who are ages 20 to 24 earn 93.2 percent of what men earn.[1] Women also account for 51.4 percent of all workers in the high-paying management, professional and related occupations.[2]

Yet, along with the personal and financial successes many women have achieved, as well as the new responsibilities and time commitments they've taken on, women are still the family caregivers. They remain the primary caregivers for children and aging family members—moving in and out of that role throughout their lifetimes. This alone could be enough to permanently derail their ability to save for retirement. So, when you add in the challenges of a longer life span with more time spent in retirement and differences in financial knowledge when it comes to investing, it's not surprising that retirement planning for women presents its own unique set of challenges.

Despite these challenges, the solutions are clear: careful planning, building a support team and making the most of the assets a woman has already. Retirement planning can be a complex process, but working with an experienced financial advisor can help women investors make steady progress toward their goals, one step at a time. A financial advisor acts as an advocate for an investor-answering questions, providing insights and connecting investors with valuable resources.

The unique challenges women face

CHALLENGE: GREATER HEALTHCARE COSTS

Women are challenged by greater healthcare costs

On average, women outlive men by about five years.[3] So, they must plan for their nest eggs to last longer. In fact, according to the Social Security Administration, women who reach age 65 can expect to live, on average, 21.6 more years.[4]

With greater life expectancies, women are often faced with more healthcare costs in retirement. This is compounded by the fact that women pay $1 billion more than men each year in individual health insurance costs even though they tend to take better care of their health.[5] As of 2010, the Affordable Care Act prohibits insurers from charging women higher premiums than they charge men. The law takes strong action to control healthcare costs, including helping states crack down on excessive premium increases and making sure most of the premium dollars go for healthcare.[6]

Despite the fact that women tend to face higher healthcare expenses in retirement, women (32 percent) are more likely than men (28 percent) to think they will need to accumulate less than $250,000 for retirement. Women are also more likely to say they do not know how much they need to save (8 percent versus 5 percent)[7] and are not as confident as men about having enough money to live comfortably throughout retirement years. Ironically, men and women are equally likely to say they will have enough money for medical expenses and long-term care.[7]

About 70 percent of men and women over age 65 require some type of long-term care services during their lifetime—and about 37 percent will need care in either a nursing home and/or assisted living facility.[3] However women, on average, need care longer (3.7 years) than men (2.2 years) due to their longer life spans.[8] Considering that the average annual cost for a private room in a nursing home in 2013 was $87,600 and the average for a home health aide was $45,188, it becomes clear how long-term care costs could quickly wipe out a lifetime of savings.[9]

Average annual long-term care costs in 2013[10]

Home healthcare aide:	$45,188
Assisted living residence:	$42,000
Nursing home care for a semi-private room:	$77,380
Nursing home care for a private room:	$87,600

Source: Genworth, 2014 Cost of Care Survey.

To make matters worse, Medicare and private health insurance do not cover most long-term care costs. Instead, most people pay for long-term care from their savings—until those savings become so depleted that they qualify for Medicaid. Some women may have family members to attend to their needs as they get older. But for others who are not so fortunate—or prefer not to become a burden—additional savings and investments to pay for long-term care will give them more options and more control over where and how they receive care.

An alternative to self-funding is to purchase long-term care insurance. In exchange for the premium payments, the insurance company promises to cover a portion of future long-term care costs. Long-term care insurance may help preserve assets and give women access to a wider range of healthcare options. But it can be expensive, particularly if purchased in later years. Doing quick cost/benefit analyses with their financial advisors can help women decide if this is the right step for them. It is also important to evaluate any restrictions, exclusions and limitations that apply before purchasing.

Still, if a woman maintains her health, the probability of having a long retirement remains high—and she should take steps to help ensure that her income lasts as long as she does. That could mean supplementing her monthly Social Security check with other sources of predictable lifetime income, such as an annuity purchased with a portion of her retirement savings.

On the other hand, a woman who has enough income already from investments, an inheritance, her own pension, or survivor pension benefits may choose to defer Social Security payments to increase their future value. The graph on the top of page 3 shows how delaying Social Security may increase the monthly benefit. In addition to regular Cost of Living Adjustments, the Social Security Administration (SSA) guarantees an annual increase of seven to eight percent, for every year a person defers collecting beyond her Full Retirement Age—up to age 70 when benefits are maximized.[11]

If she is married, there are other strategies a woman can pursue with her spouse to maximize her Social Security benefit. For example, once her spouse begins taking his/her benefits, she can elect to receive a reduced benefit as a spouse and defer taking her own Social Security benefits until they reach the maximum payout level at age 70. At that point, she can switch to begin receiving her own monthly benefit at a higher rate. If she is divorced, she can still claim spousal benefits on her ex-spouse if they had been married at least 10 years, divorced for two, and she is not currently married.

Before deciding to defer Social Security payments, women should talk with their advisors to explore all the possibilities—and understand how they may affect retirement income for themselves and their spouses.

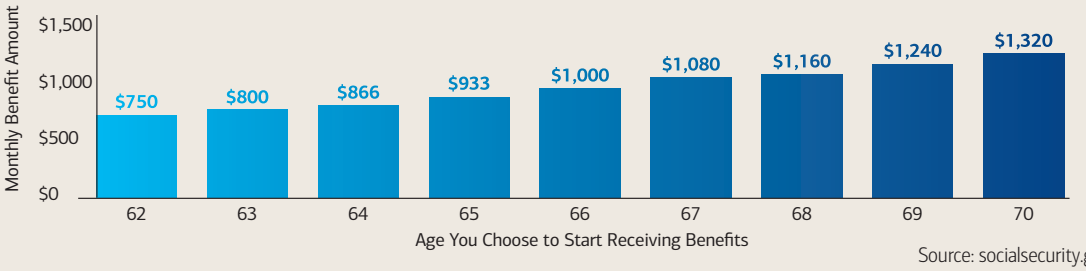
Retirement planning for women's greater healthcare costs

Like many things, however, longevity can be a double-edged sword. Because women can expect to live longer, they'll need to save more to avoid outliving their retirement savings or using assets they intended to leave to their heirs. And along with advancing age, also comes an increased likelihood of a costly health event like extended long-term care.

Monthly Social Security amount by age you start benefits

This example assumes your benefit amount at a Full Retirement Age of 66 Is $1,000[12]

Social Security **benefits increase** the longer you delay them.



Source: socialsecurity.gov

A well-designed retirement plan is essential to building sufficient funds—not only to last for two or more decades, but also to allow a woman to pursue the retirement she would like to have. And, according to a poll of retirees, affluent women have higher expectations for their retirement years than men when asked about what they want to do in retirement, as shown in the chart below.[13]

These higher expectations may be one of the reasons affluent women (66 percent) are more concerned than men (54 percent) about their retirement assets lasting throughout their lifetime.[14]

Armed with the knowledge that she may enjoy a retirement of 25 or 30 years (or longer), a woman today should pursue retirement savings strategies that factor in her anticipated healthcare expenses and include enough extra savings, or insurance coverage, for her to remain in control of where and how she receives long-term care.

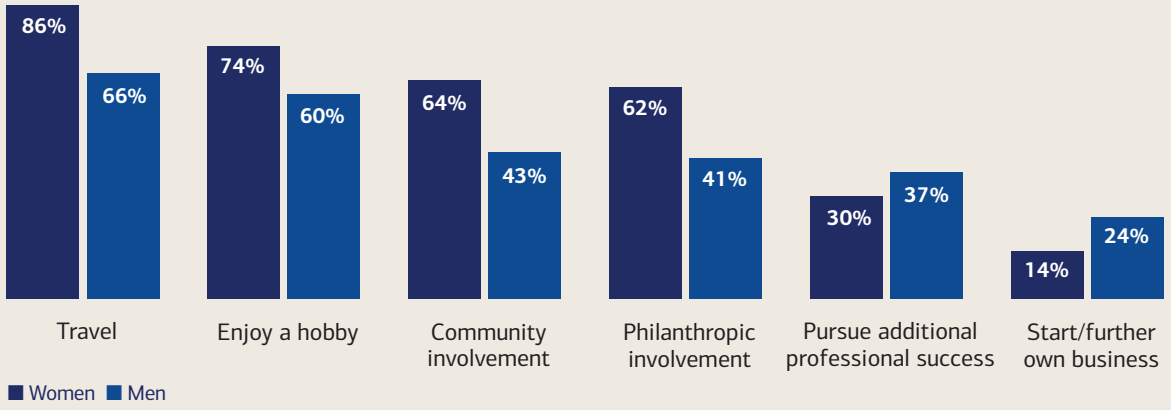
She can also talk to her financial advisor about opportunities to create predictable lifetime retirement income to help address the issue of outliving her money. If appropriate, she may want to consider purchasing an annuity with a portion of her retirement savings to provide a predictable retirement income stream. If her spouse has a pension, they may want to explore the option of choosing to receive survivor pension benefits through periodic payments that can provide income that is guaranteed for both of their lives.

Finally, it may be beneficial for a woman to explore options for deferring her Social Security benefits with her tax advisor in order to increase the future value of her benefits.

Strategies to help make retirement savings last

- Estimate your expected out-of-pocket healthcare expenses such as insurance copays and Medicare premiums before you retire—and integrate those costs into your overall retirement plan.
- Creating contingency plans for unexpected expenses such as long-term care.
- Consider purchasing long-term care insurance early on (in your pre-retirement years), when premiums may be less.
- Talk to your financial advisor about guaranteed income products like annuities that can provide additional income in retirement.
- Look for ways to maximize your Social Security benefits such as delaying payments now in favor of higher benefits later on.

Affluent women aspire to be even more active during their retirement years than men[13]



Source: *Merrill Lynch Affluent Insights Quarterly*, January 2011.

CHALLENGE: WORKING AND CAREGIVING

Women are challenged by balancing work and multiple caregiving roles

While the roles of both parents in affluent households are changing, women still take on most of the child care responsibility. A survey conducted by ForbesWoman revealed that women feel financial pressure to support their families. Of the working moms surveyed, 69 percent said they feel pressure to work because their family can't survive without the added income. Yet, more than half (52 percent) of the women said their partners or others sometimes make them feel that they aren't devoting enough time to their child/children.[15] A Merrill Lynch survey found that a greater percentage of women (37 percent) also express greater concern than men (25 percent) about what the prospect of caring for an aging parent could do to their own financial security.[14]

Single women may also need to assume the caregiving role. When the analysts at the Working Mother Research Institute asked women caregivers of aging parents about the effects of caregiving on work, 48 percent agreed with the statement that, "I find it difficult to manage the demands of my work life and personal life." For current caregivers, that statement was the one that generated the highest rate of agreement. "I have passed up a more demanding job or promotion" ranked second, with 39 percent in agreement.[16]

Unfortunately, the long-term effects of "off-ramping" on a woman's lifetime earnings can be startling. As the chart below shows, women who took time off from work earned significantly less than their peers who had a continuous work experience. And the longer women were out of work, the more their earning power was reduced.

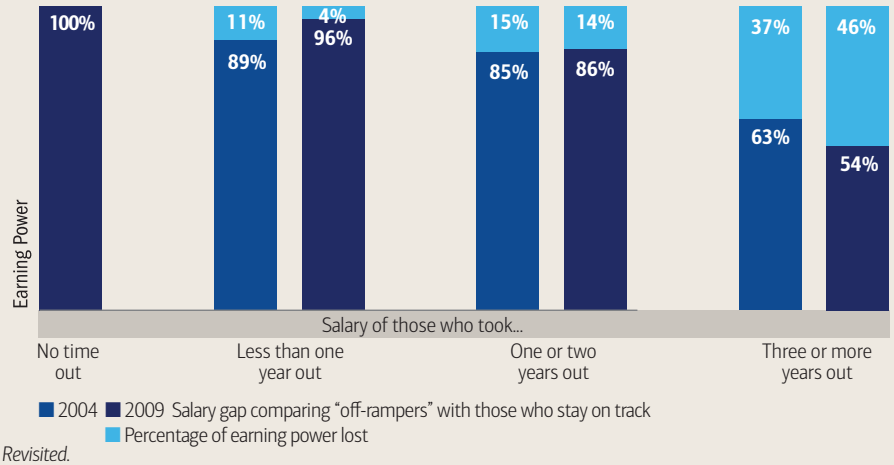
On average, women in the study who left paid work even temporarily lost 16 percent of their earning power. Women who stayed out of paid work for three years or longer saw their earning power reduced by almost 50 percent.

Although women's salary might be on parity in the beginning, the CWLP study also found that once women stop working temporarily to have children, they will likely never catch up to their male and female peers who haven't taken time off. Even if women leave work for only a short period, the financial consequences can be significant. Because their career interruption puts them out of step with their male colleagues' linear progression, women who left the workforce earn only 71 percent of the male wage by the time they reach the ages of forty to forty-four.[17]

Another attributing factor is that some women choose to take what the CWLP study calls the "scenic route." They reduce their hours, decline a promotion, take a leave of absence or pursue part-time or consultant positions rather than drop out altogether. But whatever the new pattern of work, it tends to dramatically alter a woman's income and her ability to accumulate retirement assets. While she may contribute some of her reduced earnings separately to an Individual Retirement Account (IRA), or could have a spouse who contributes to her Spousal IRA, a woman who leaves a corporate job also loses the benefit of any matching contributions and vesting schedule increases in a 401(k) plan or maximum accumulation benefits in a pension plan. The gaps in a woman's earnings history can also result in lower Social Security benefits than if she had worked steadily through the years.

Women who left the workforce earn only **71% of their male counterpart's wage** by the time they reach the ages of 40 – 45.[17]

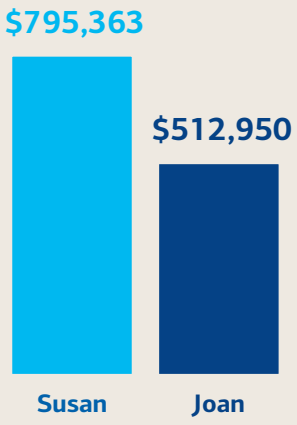
Salary differences based on how long a woman "off-ramps"[17]



Source: Center for Work-Life Policy, *Off-Ramps and On-Ramps Revisited.*

	Susan	Joan
Savings approach	**Consistent:** Invests $3,000 a year using her employer's 401(k) for the first eight years and a Spousal IRA for the next 35. But, she consistently invests $3,000 every year (or about $250 a month) for 43 years until her retirement.	**Inconsistent:** Invests $3,000 for eight years in her 401(k), then leaves the workforce—and stops saving altogether for the next 20 years. When she is age 50, she returns to work part-time for 15 more years and contributes $6,000 each year to an IRA, taking partial advantage of the "catch-up" IRA provisions.
Total invested over time	**$129,000**	**$114,000** (tax-deferred)
Savings balance at age 65	**$795,363**	**$512,950**
	A $282,413 difference	

Comparing different savings approaches[18]



The data illustrated in this graph is hypothetical and does not reflect the performance of any particular investment. See endnote 18 for data assumptions.

Retirement planning for women with multiple roles

Because a woman's non-linear earnings path may mean skipping years of contributions and company matches, it may be critically important for her to both maximize her retirement contributions early in her career and contribute as much as she can to tax-deferred accounts during her years away from the workplace. This combined strategy takes advantage of potential tax-deferred returns compounding over many years.

The hypothetical example above suggests how powerful the strategy can be. It compares the hypothetical results of two married women who both start contributing to tax-deferred retirement accounts at age 22 and earn a hypothetical average annual return of seven percent on their investments. Both women leave full-time work at age 30 to raise children, but each takes a different approach to saving after that.

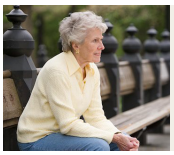
The difference between the two approaches at retirement is significant: $282,413. But the fact that Joan is still able to build a substantial nest egg with no additional contributions for 20 years underscores the importance of saving as much as possible in the early years.

There's another key point made by this example—saving even small amounts on a steady, consistent basis, can make a huge difference over time. That's why, when a career break interrupts her automatic 401(k) contributions, a woman should take full advantage of other tax-deferred accounts to continue saving for retirement. If she is married and has no income, she may be able to contribute to a Spousal IRA. If she earns part-time income, she can establish her own IRA. If she is self-employed, she can contribute to a Simplified Employee Pension (SEP) IRA.

In addition, when she experiences a change in employment, she should consider her choices for any assets she may have in her former employer's 401(k) or other plan-sponsored accounts. Depending on her financial circumstances, needs and goals, she can choose to leave the assets in her former employer's plan; withdraw the assets in a lump-sum distribution; roll over all or a portion of the assets to a Traditional IRA; move the assets to her new employer's retirement plan; or convert all or a portion of the assets to a Roth IRA. Each choice may offer different investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and provide different protection from creditors and legal judgments. These are complex choices and should be considered with care.

Strategies to help keep retirement savings on track

- Contribute as much as possible to employer-sponsored retirement plans while you are working.
- If you're self-employed, even part-time, consider opening a SEP IRA.
- Open an IRA and contribute the maximum amount allowed, including making "catch-up" contributions (if you are eligible).
- Participate in a Spousal IRA (if eligible).
- Consider your choices for the assets in a former employer's retirement plan (i.e. 401(k)) which are:
  - Leave the assets in your former employer's plan.
  - Withdraw the assets in a lump-sum distribution.
  - Roll over all or a portion of the assets to a Traditional IRA.
  - Move the assets to your new employer's retirement plan.
  - Convert all or a portion of the assets to a Roth IRA.



CHALLENGE: LESS CONFIDENT IN INVESTING KNOWLEDGE

Women may be challenged by having less confidence in their investing knowledge

If a woman's workplace retirement savings are diminished by the need to juggle work and care roles, the success of her retirement plan will depend not only on the amount of money she contributes on her own, but also on the performance of the investments she selects. She must pay close attention to investing opportunities that will help maximize the growth potential of her retirement savings. And, investing for growth typically means taking on more risks. However, most research suggests that is not always within a woman's comfort zone.

A 2010 report by the Boston Consulting Group (BCG) noted that more than 70 percent of the affluent women they interviewed favored balanced or conservative investment strategies. For women aged 50+, that preference rose to 95 percent.[19] Another BCG survey found that affluent women typically held 20 percent of their assets in checking or savings accounts. Although they knew they should be investing more strategically, they said they weren't comfortable with other investments.[20]

The fact that women tend to choose more conservative investments is definitely real. However, a new research study conducted by Michael Liersch, Head of Behavioral Finance at Merrill Lynch, revealed that elements such as confidence (or lack thereof) and wealth level are actually driving the investing differences, more than gender. Merrill Lynch's research found that more than half of women agreed with the statement, "I know less than the average investor about financial markets and investing in general" compared with only a quarter of men who felt that way.[21] After adjusting for the differences in investing knowledge, the willingness of women to take risks was closer to that of men. Whether the difference is a matter of women in fact having differences in financial knowledge compared to men or that they know as much but have less confidence about their knowledge, there are direct steps women (and men) can take to increase their financial knowledge and confidence level.

Working with a financial advisor may help a woman develop a better understanding of risk and her risk tolerance in order to create a more diversified portfolio appropriate for her unique situation. Once created, she will need to assess that portfolio regularly and modify it as her life situation changes over time.

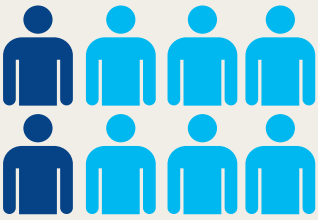
Retirement planning with growth potential

Clearly, there are no one-size-fits-all retirement investing solutions. Each woman must work closely with her financial advisor to help her find the right asset mix for her specific goals, risk tolerance, time horizon and liquidity needs.

A retirement plan has the potential to offer women greater financial freedom and the ability to build a life in retirement that suits their unique objectives and helps address the issue of outliving their wealth. Specifically, women can benefit from starting to save money earlier and making sure they fully understand all available savings vehicles. Saving early will enable them to benefit from compounding growth, which is especially important if they choose to take the exit ramp from work to care for family.

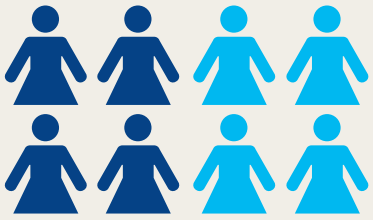
All investors should implement an asset allocation strategy that matches their investment objectives, time horizon, liquidity needs and risk tolerance. Many women tend to be more conservative than men when it comes to investing. They should consider their investments in the context of their personal circumstances and may benefit from having a portion of their portfolio held in less conservative investments. Matching expected expenses to expected income can help ease the retirement planning process and help all investors better prepare for the future.

"I know less than the average investor about financial markets and investing in general"



Only 25% of men agree with this statement, yet more than 50% of women agree.[21]

■ Agree ■ Disagree



A woman may also want to talk to her investment and tax advisors about the option to convert her traditional IRAs into Roth IRAs. While there are potential advantages and disadvantages, some reasons she may want to consider a conversation include:

- **She can take advantage of Roth IRAs' tax benefits.** While most high net worth households are still not eligible to contribute to Roth IRAs, all individuals (regardless of income), can convert their traditional IRAs to Roth IRAs. The main benefits are the Roth IRA's ability to provide federally tax-free growth potential and federally tax-free qualified distributions (at or after age 59½ and if held for five years or more[22]). But ordinary income taxes must be paid on the pre-tax amount of the conversion, so this may be a better strategy for women who have money elsewhere to pay for the taxes due upon conversion and who may be temporarily in a lower income tax bracket.
- **Assets in Roth IRAs can continue to grow federally tax-free throughout her lifetime.** Because the original Roth IRA owner does not have to take Required Minimum Distributions (RMDs) beginning at age 70½ (a requirement for traditional IRAs), the assets in the Roth can continue to grow federally tax-free for many years.
- **Roth IRAs can help her transfer assets federally tax-free to the next generation.** For a woman looking to pass on wealth to her children without saddling them with onerous income taxes, a Roth IRA would provide the ability to leave federally and potentially state income tax-free assets to her children or grandchildren.

Strategies to balance risk and growth potential

- Schedule a meeting with your financial advisor to help make sure your retirement portfolio is well-diversified and positioned for growth based on your situation.
- Agree on schedules to meet with your financial advisor periodically to help you keep your investments on track as your needs change.
- Consider time-saving managed accounts that follow your lead, but take over the day-to-day decisions for investment management.
- Explore the tax benefits—and implications—of a Roth IRA conversion.
- Begin saving for retirement early and contribute often to take advantage of compounding growth potential.

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- Take time to understand your short-term challenges and long-term financial goals.
- Suggest new ways to help you manage your investments while juggling competing priorities and multiple roles.
- Help you increase your financial knowledge and understand the investment options available to you.
- Find ways to help you save time by helping you manage your investments according to your needs and preferences.
- Help you with your legacy planning

However you define a successful retirement—whether it's more time with friends and family, greater financial freedom or the ability to pursue new skills and interests—working with a financial advisor can help make your retirement your own.

To get started, talk to your Merrill Lynch financial advisor or visit ml.com.

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All annuity contract and rider guarantees, including optional benefits or annuity payout rates, are backed by the claims-paying ability of the issuing insurance company. They are not backed by Merrill Lynch, Merrill Edge, or its affiliates, nor does Merrill Lynch or its affiliates make any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

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While financial advisors may discuss healthcare costs as part of a client's retirement plan, financial advisors may not provide specific advice on healthcare coverage options.

[1] Trend Applications Consumer Attitudes toward Retirement Planning, U.S. Census, December 2014

[2] Labor Force Statistics from the Current Population Survey, December 2014, http://www.bls.gov/opub/reports/cps/women-in-the-labor-force-a-databook-2014.pdf

[3] *Who Needs Care?*, http://longtermcare.gov/the-basics/who-needs-care/

[4] Social Security Administration Calculators: Life Expectancy, http://www.socialsecurity.gov/planners/lifeexpectancy.htm

[5] Urban Institute Health Policy Center, *Health Care Costs Are a Barrier to Care for Many Women*, January 7, 2015, http://hrms.urban.org/briefs/Health-Care-Costs-Are-a-Barrier-to-Care-for-Many-Women.html

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[8] LongTermCare.gov, *How Much Care Will You Need?*, http://www.longtermcare.gov/LTC/Main_Site/Planning/Importance/How_Much.aspx

[9] Genworth Financial, *Genworth 2014 Cost of Care Survey,* https://www.genworth.com/dam/Americas/US/PDFs/Consumer/corporate/130568_032514_CostofCare_FINAL_nonsecure.pdf

[10] Genworth, *2014 Cost of Care Survey*. Home care assumes home health aide services, 44 hours per week; assisted living assumes one bedroom. For more information on a specific area, please visit each state's Department of Health website

[11] Social Security Administration, 2015

[12] Social Security Administration Publication 05-10147, *When to Start Receiving Retirement Benefits,* January 2014

[13] *Merrill Lynch Affluent Insights Quarterly*, January 2011

[14] *Merrill Lynch Affluent Insights Survey,* February 2012

[15] Forbes, *Is 'Opting Out' The New American Dream For Working Women?*, September 12, 2012, http://www.forbes.com/sites/meghancasserly/2012/09/12/forbeswoman-and-thebump-com-parenthood-and-economy-2012-survey-results/

[16] LifeHealthPro, *Survey: Working Caregivers Want Time*, June 18, 2012, http://www.lifehealthpro.com/2012/06/18/survey-working-caregivers-want-time

[17] *Off-Ramps and On-Ramps Revisited*, Center for Work-Life Policy (CWLP), © 2010

[18] The data illustrated in this graph is hypothetical and does not reflect the performance of any particular investment. The chart assumes: Annual 401(k) contributions and IRA contributions made on January 1, a 7% average annual rate of return earned on a non-FDIC insured investment, and tax-deferred compounding. Past performance is no guarantee of future results. An account may earn more or less, or may incur a loss. Final account balances are prior to any distributions, fees, and taxes which would lower the ending balance. Taxes may be due on distribution. You may be subject to a 10% additional federal tax if you withdraw prior to age 59½. Investing in this manner does not ensure a profit or guarantee against loss. Investing in securities involves risks due to price fluctuations.

[19] *Leveling the Playing Field: Upgrading the Wealth Management Experience for Women*, The Boston Consulting Group, July 2010

[20] *Women Want More (in Financial Services),* The Boston Consulting Group, October 2009

[21] *Women and Investing: A Behavioral Finance Perspective*

[22] For a distribution from a Roth IRA to be federal (and possibly state) tax-free, it must be qualified. A qualified distribution from your Roth IRA may be made after a five-year waiting period has been satisfied (this period begins January 1 of the tax year of the first contribution or the year of conversion to any Roth IRA) and you (i) are age 59½ or older; (ii) are disabled, (iii) qualify for a special purpose distribution such as the purchase of a first home (lifetime limit of $10,000), or (iv) are deceased. If you take a non-qualified distribution, any Roth IRA investment returns are subject to regular income taxes, plus a possible 10% additional federal tax if withdrawn before age 59½, unless an exception applies. A special provision applies for converted assets. If a non-qualified withdrawal is made within five years of the conversion, the earnings withdrawn will be subject to income tax, and the entire withdrawal may be subject to an additional 10% federal tax unless an exception applies.

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