How Does Income Inequality For Women Affect Their Retirement?

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Income inequality experienced by women restricts their ability to save for retirement, putting them at higher risk of running out of money late in life, especially unmarried women. Not only are they affected financially, but physical and emotional health can be affected as well. By exploring income issues, retirement savings plans, income solutions and health, it will be shown that with careful planning, women can avoid the many pitfalls on the road to retirement.

Income Issues Women Face

A 2010 study by the Mature Market Institute found women feel their careers have been affected by the glass ceiling in the form of lower salaries, lack of advancement opportunities and lack of respect in the workplace. Unmarried women perceive the effect of the glass ceiling more so than married women when in reality about 49% are actually affected (Mature Market Institute, 2010). Women's income is, in fact, still lagging behind men's even though we have seen improvements in the past few decades. In 2000, for every $1.00 earned by men, women earned 24% less at $0.76 (Cullinane, 2012). Today, even with equal education and experience, women earn $0.81 for every $1.00 men earn (Cullinane, 2012).

Lower pay for women not only affects the amount they can save for retirement, but also means lower Social Security benefits during retirement. Some reasons for this gender pay inequity include overrepresentation of women in lower paying service related jobs such as teaching and nursing and underrepresentation in the more lucrative careers in science, technology, engineering and math. Additionally it is more likely women will take time out of the workforce for childbirth and care giving (Cullinane, 2012). About 30% of women care for an elderly relative and 45% feel they are struggling to make it all succeed (Mature Market Institute, 2010). Single women over 65 experience a poverty rate of 17% due to lower income jobs, fewer pensions, lower Social Security payments and smaller investment income (Cullinane, 2012). The issue greatens as women continue to age since “the percentage of the population who are in poverty increases as people age” (DeVaney, 2008).

However, women have the power to lessen pay inequality. The first step would be for women to recognize the value of their contribution to the work force. According to Cullinane, “Women tend to undervalue themselves, often feeling grateful to be offered a job, and underestimate their market value by up to 30 percent” (2012, p.5). By failing to negotiate salaries on a consistent basis, women stand to earn $1 million less during their careers. A woman could lose more than $500,000 in earnings by age 60 simply by not negotiating her first salary (Cullinane, 2012). By taking the initiative to negotiate salaries, women could easily increase earnings an additional $500,000 to $1,000,000 in their lifetimes, providing more funds that could be saved towards retirement. Women are beginning to outnumber men in the workforce transforming the business world which is changing the way we work and how the family functions (Mature Market Institute, 2010). Women are an economic force to be reckoned with; working wives bring in 42.2% of her families’ earnings and women make the primary purchasing decisions controlling 73% of all household spending (Mature Market Institute, 2010). Being good consumers, beginning retirement savings through employer plans early in their careers, while working with their investment adviser, women can develop a retirement plan that meets their goals.

Retirement Income

In generations past, lifetime employment and defined benefit plans commonly known as pensions were prevalent. Pensions rewarded employees with some financial security in retirement when supplemented with Social Security. For most workers, pensions are a thing of the past with only about 15% of private-sector employers retaining defined benefit plans

(Cullinane, 2012). Education and government are two sectors that hire a large number of women and currently provide pensions, although they seem to be diminishing in size and being replaced or supplemented with defined contribution plans. This trend in reducing or replacing pensions with alternative retirement plans has potentially detrimental effects for women since 46% of women surveyed by the Mature Market Institute (2010) report they have coverage by a defined benefit pension plan. Littell states, “A company that decides to terminate a defined-benefit plan that has always satisfied the minimum funding requirements may find that its defined benefit plan has insufficient plan assets to satisfy the liabilities for all of the accrued benefits” (2009, p.3.11). Although the retiree doesn’t need to manage the investments in a pension, there is always some risk the employer will go out of business and the plan would be terminated without sufficient assets to fund the payments (Cullinane, 2012). With education being one of the primary fields that still have defined benefit plans and women holding the majority of teaching positions, this puts women at high risk of not being able to fund their retirement should they find their plan is underfunded. It would behoove those with defined benefit plans that are offered a lump sum or partial lump sum withdrawal option at retirement to seriously consider taking the rollover to an IRA they can control, with the help of a financial professional, if the employer may not be in the best financial health. Many states are struggling and the retirement plans once considered to be secure may not be able to support the retirees. Saving outside of employer plans, for example using a Roth IRA or Traditional IRA, can alleviate stress and restricted retirement income if the income from their defined benefit or defined contribution plan is less than planned.

Investing

Women's financial education is often different than what men receive. Many women don't want to get involved with finances and prefer to have someone else handle it for them (Blayney, 2010). This is made apparent with only 74% of women participating in their company's retirement plan (Mature Market Institute, 2010). This is detrimental to their retirement savings and may be missing out on "free" money in the form of company-matched savings. Young women are traditionally taught more about budgeting, saving and paying bills than about investing in stocks, bonds and estate planning (Cullinane, 2012). Financial literacy education is not, for the most part, mandatory in secondary or higher education curriculum. Students from economically sound families are more financially literate than those who are less fortunate which perpetuates the lack of financial literacy and economic inequality among families (Mandell, 2008). Additionally, women tend to be more risk averse investors, make fewer investment mistakes and more likely to seek advice from a financial professional (Cullinane, 2012). Executive women, however, describe themselves as moderate risk takers, even though their risk tolerance has become more conservative since 2008 and many are concerned about financial security in retirement (Mature Market Institute, 2010). Women generally invest less money and use investments with less risk, which may be due to lower earnings, less financial knowledge, and lower comfort levels with math and financial knowledge (Hira & Loibl, 2008). By having lower risk tolerances, women may be prevented from accumulating adequate retirement savings and not reaching intermediate financial goals (Hira & Loibl, 2008).

Life event triggers like child-birth, widowhood or divorce prompt more women to invest. At some point, 80% to 90% of women will be solely responsible for their finances (Cullinane,

2012) yet long-term financial security is lower than it is for men (Hira & Loibl, 2008). The earlier women start saving for their retirement, the more apt they will have what they need for a successful retirement, yet saving for retirement is the most challenging activity the majority of women confront (Mature Market Institute, 2010). Per the Mature Market Institute findings (2010), women are return-oriented investors and will end their relationship with their advisor if they perceive to have poor investment performance. Reviewing progress towards their retirement savings goal annually keeps the end goal in sight and allows women to make tactical changes in their investment portfolio to adapt to the ever-changing market.

Physical Well-being

Women outlive men for several reasons, but having that additional X chromosome provides women with a stronger immune system and higher likelihood of surviving diseases, injuries and traumas (Cullinane, 2012). Women also tend to retain cognitive skills longer than men. Though it has been found women experience higher rates of Alzheimer's disease, one can surmise that because they live longer, women are more likely to develop the disease. A study by the Cooper Clinic in Dallas, found that women who remained single have a slightly higher cardiovascular fitness than their married counterparts (Cullinane, 2012). Perhaps by having more time to themselves, single women are better able to exercise creating better physical health. With longevity, comes the need for financial security long into the retirement years and the need to manage their financial plan throughout life.

Emotional Well-Being

Women fear they will outlive their retirement income and won't have enough money to cover health care expenses (Mature Market Institute, 2010). Emotionally, single women may be less prepared for retirement than married women. "Only 2% of single women are "very confident" that they can retire comfortably and 57% of single women cited Social Security as their primary source of income in retirement" (Cullinane, 2012). Despite their concerns, most women plan to retire at the traditional retirement age of 65 to 66 (Mature Market Institute, 2010). "Social support is critical for a successful retirement" (Cullinane, 2012, p. 9). Women are very good at socially supporting one another, especially among singles, which is a benefit since women tend to outlive men. It's natural for women to join book clubs and other social organizations which helps prevent depression, encourages healthy behavior and boosts self-esteem. Have you ever seen a group of Red Hat Society ladies not having a good time? Retirement success includes peace of mind that financial preparation provides allowing retirees to enjoy their golden years.

The Single Woman in Retirement

In 2005, married couples became the minority (Cullinane, 2012). Many women choose to be single, either by never marrying or through divorce. More than half of all women in the United States are living in a home without a spouse and for African-American women, the percentage is 70%. More than 25,000,000 single women are over the age of 45 and that number continues to grow (Cullinane, 2012). Marriage is being delayed with 26 as the median age for a woman's first marriage as compared to early 20's post World War II (Cullinane, 2012) thus women are starting their careers independently. This may also delay their retirement savings as they struggle to establish their independence on one income. "For the most part, single women will have to work longer than married counterparts" (Cullinane, 2012, p.10) so they may also have more years to save for retirement.

Over 50% of first marriages and 70% of second marriages end in divorce affecting 1.1 million women each year (Francis, 2012). Couples over 50 account for 25% of all divorces which affects over 250,000 women each year and 2/3 of those divorces are initiated by women (Cullinane, 2012). The percentage of divorce is even higher for college educated women, potentially due to a higher level of financial security as compared to those with lower education levels. Divorce can create financially devastating circumstances for both parties, but when divorce occurs, a woman is then dependent upon her own income which may be significantly less than what she would have had with her spouse since planning to that point would have included both their retirement incomes. Green found that this can have future ramifications since "loss of a spouse to divorce or death can lead to a precipitous remarriage that ends in divorce." (2010, p. 49). If divorce occurs later in life then there is less time for a woman to recover financially and she may not be in the position to have earned income or save additional funds for her retirement. There also may not be time for the assets to increase in value after the division and prior to beginning withdrawals. If a divorcee or her spouse were entitled to a pension she may only be able to collect half or none at all if it was not awarded to her in the divorce proceedings. Dividing assets by percentages instead of dollar amounts may create a more equitable division of assets and guard against being shorted if investments lose value between the divorce proceedings and the completion of the transaction (Green, 2010). This is why women going through divorce should seek financial advice from a professional.

Divorced women who were married for at least ten years and have not remarried can claim a spousal benefit from Social Security that will allow their own benefits to increase. One strategy would be to take the spousal benefit at normal retirement age and allow their own benefit to grow until age 70. This will provide 32% more income for the remainder of their life than if they'd claimed it at their normal retirement age. If their own benefit is less than their spousal benefit at age 70, then she can continue the spousal benefit for the remainder of her life.

The spousal benefit is also available to married couples and should be used to make up the income gap that many women experience. In the U.S., the average age of widowhood is 56 (Blayney, 2010). For women who are widowed, married for at least ten years and didn't remarry prior to 60, may also claim Social Security benefits based on their husbands earnings as early as age 60. Strategically planning when and how to take Social Security benefits can ensure maximum benefits are received.

Same-Sex couples face a different set of financial challenges, but may have higher combined incomes than traditional couples. Since there may not have been breaks in employment to raise children their incomes would have continued to grow over the years providing higher combined income and the ability to save more. The biggest financial detriment to same-sex couples, as well as heterosexual cohabitating couples, is taxation that may thwart efforts to save more for retirement and reduce income while in retirement. The Federal Defense of Marriage Act (DOMA) prevents same-sex couples from receiving the tax advantages of traditional marriage because they are viewed as two unmarried and unrelated parties, even if recognized as legally married by their state's law (Knowles & Veliotis, 2012). Additionally, they cannot use the married filing jointly (MFJ) status. Thus, non-traditional couples usually pay more in federal income taxes than married couples. For example, if one partner has $180,000 taxable income and the other has $20,000 taxable income, their total tax using single status tax rates for 2012 is $46,493 versus MFJ status with $200,000 in taxable income paying $43,779. That is $2,714 per year that the non-traditional couple is not able to save for their retirement. To be fair in this discussion, if the earnings were evenly distributed with each partner earning $100,000 taxable income, their total taxes at the single status would be $42,921 with a marginal tax rate for each at 28% while the MFJ status pays a total of $43,779 with a marginal tax rate of 33%.

A major area of concern for non-traditional couples is in the area of estate planning. By not having the marital exemption of $5 million for gifts and transfer at death to which married couples are entitled, transfer of assets to non-related parties is susceptible to gift taxes if greater than $13,000 in 2012, but subject to change in future tax years, in any one year (Knowles & Veliotis, 2012). Careful estate planning for non-traditional couples with the use of trusts is essential to ensure protection of the assets same sex partners have built together.

American Working Women and Culture

By age 40, there is a real drop in ambition among American women (Hewlett,2011). In India, 42% of college graduates are women and 80% of working women there describe themselves as ambitious (Hewlett, 2011).Why do American women lose their ambition while women in other parts of the world continue to succeed? One theory may be that if she has not yet reached her idea of success by age 40 American women stop trying and resign themselves to the fact that there may, in fact, be a glass ceiling. Another reason may be if they left the workforce while raising their children, they feel their first job is to be a mother and their career is not as important to them as it once was. In many American families, the mother is expected to be the one to stay home with sick children or leave work early to attend to the needs of the family. This attitude prevails because they usually are not the high wage earner of the family and American culture expects the husband to provide for his family. These practices may perpetuate income inequality for American women as employers may view women as unreliable and don't expect them to be employed for long periods of time.

Women in India don’t expect to be sidelined by motherhood as American women are because they have extended family support and inexpensive domestic help. However, they are expected to take care of their elders, which creates pressure to quit work for a while (Hewlett, 2011). In the U.S., when the elderly are no longer able to care for themselves, they are admitted to assisted living facilities or nursing homes. Perhaps by not taking leaves of absence early on their careers, Indian women are able to move up in their company and establish value to their employer. Later in their careers, when their parents have aged and need care, loyalty between employee and employer has been established and women’s pay isn’t penalized. Also, the leave of absence to care for their elders at the end of their lives may be shorter than the number of years Americans are out of the workforce to raise children. The pay structure in the majority of companies is based on experience and company seniority, so those who re-enter the workforce after only working for a few years will start at the lower end of the pay scale.

Women in America struggle with income inequality from the time they enter the workforce and are never able to make up for a low starting pay. Income inequality is partly due to the fact employers don’t value women as much as men and that women don’t negotiate their pay as aggressively as men. During the child-bearing years, women leave the workforce for a few months or up to several years to devote time to the family. Women are the caregivers in the family and many employers are often reluctant to advance women with families for fear they will not remain dedicated to the employer. This affects the amount women are able to save throughout their careers in preparation for retirement and also reduces Social Security benefits for women. Women have the power to reduce income inequality by asserting themselves in the workplace and negotiate better salaries from the outset. Also, women would benefit from financial literacy education to help prepare for retirement so that they aren’t relegated to poverty in their golden years. Unmarried women may also be penalized under our current tax laws with higher marginal tax rates than their married counterparts. With financial literacy education, studying how women around the world have adapted to being a part of the workforce and planning, American women can make changes that will provide them a secure retirement.

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