How to Best Prepare Yourself for Retirement as Part of the Sandwich Generation

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WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

About WISER

- Provides women with basic tools and financial information aimed at helping them take financial control of their lives
- Topics include:

  Saving & Investing
  Social Security
  Retirement Planning
  Divorce & Widowhood
  Caregiving
  Health and Long-Term Care
  Financial Fraud & Abuse

- Operates the National Resource Center on Women & Retirement Planning with the U.S. Administration on Aging

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What We'll Cover –How to Best Prepare Yourself

- Women's Unique Challenges
- What is Sandwich Generation
- Caregiver Considerations
- How Much Income You Will Need
- Getting the Most From Social Security
- Your Investment Account Options
- Plan for a Long Road Ahead
- Q&A

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Why Women?

- There are many more older women than men!
- At age 65+, there are 5.6 million more women than men
- Women make up 65% of the 85+ population
  - This age group expected to double, even triple over the next 3 decades
  - This is the group most likely to end up in poverty
- Many women who have never been poor end up in poverty in old age

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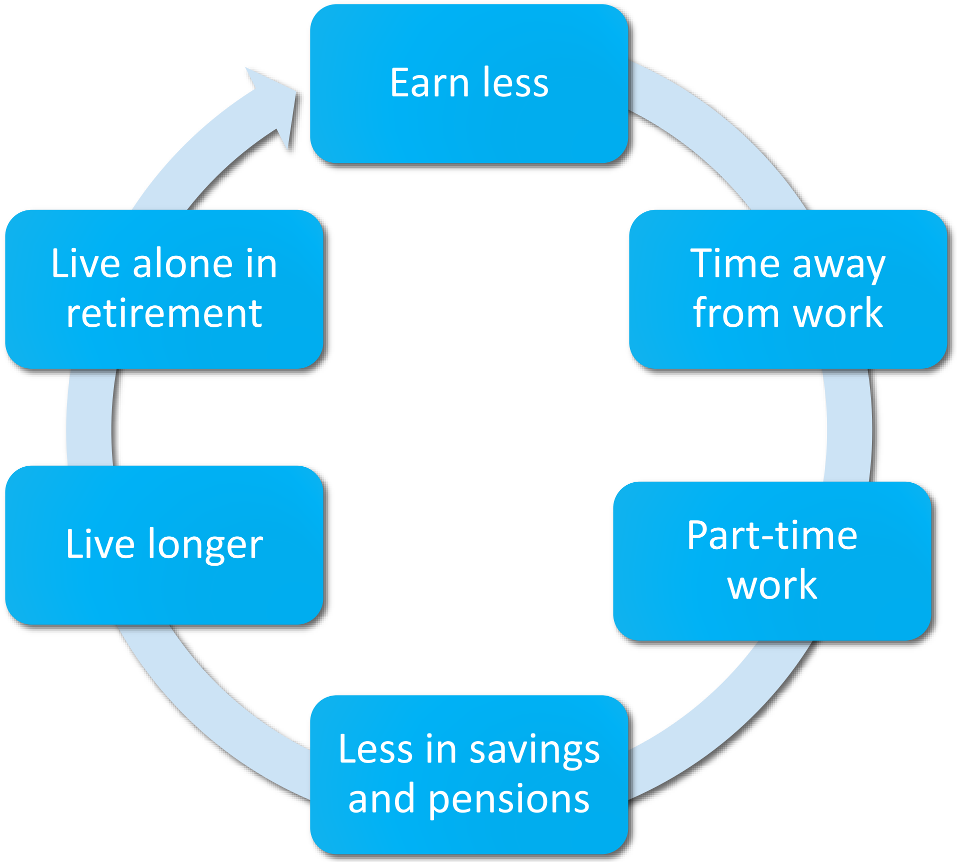
Women's Unique Challenges



What is the Sandwich Generation?

- Usually Gen X (born 1965 to 1980 so ages 40 to 55)
- Usually in peak earning years while "sandwiched between" raising kids and taking care of aging parents so easy to be derailed from focusing on themselves
- Generation not an age but a collective experience so
  - Boomers (born 1946 to 1964 so ages 57 to 74) and Millennials (born 1981 to 1997 so ages 23 to 40) are often "sandwiched" as well with grandparents and grandkids added to the mix

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What is Unique about Gen X?

- First “gamers” – technologically adept so want tools for planning
- First “latch key” generation – so self-reliant
- Like “what-if” scenarios for all life throws at them
- Gen X – 1st generation to have access to workplace savings plan like 401(k) their whole career
- Gen X women have worked and earned more in their 20s and 30s than those who are now retired did at those ages

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How Prepared Are Gen X to Retire?

- 59% of GEN X are confident in their ability to retire which is *lower* than Boomers and Millennials
- 86% are concerned that Social Security won't be there for them
- While GEN X has significant debt (51% with mortgage debt; 42% with credit card debt) they don't think it is complicating their financial picture
- Among all generations, 79% provide financial support to adult (over age 18) children and 63% say they have sacrificed their financial security for their children
- Gen X caught between needs of parents/children and own retirement

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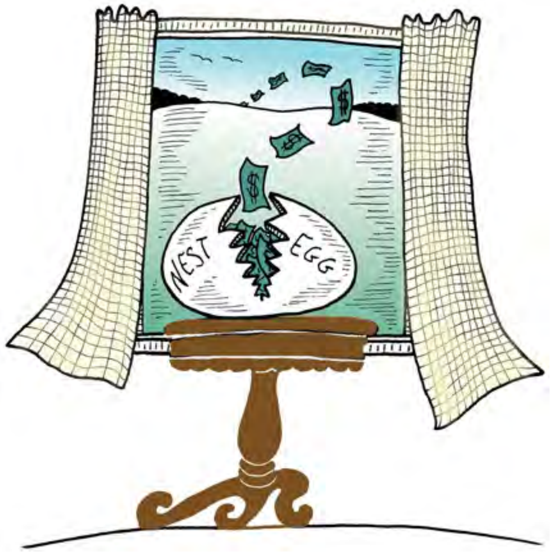
Financial Consequences of Caregiving

Caregiving can have serious financial consequences by impacting

- Ability to work
- Direct out-of-pocket expenses
  - 30% -- cut back on their own expenses
  - 24% -- had trouble paying bills
  - 21% -- dipped into their savings
  - 18% -- couldn't contribute to their savings
  - 15% -- took on debt



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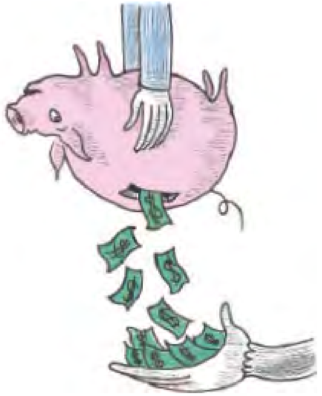
Leaving a Job/Working Part-time to Provide Care



What are your healthcare or insurance options?
- Are there a minimum number of hours you can work to still be eligible for your employer's insurance?
- Get estimates on what COBRA or other healthcare coverage might be before you leave or reduce hours.
- Think about disability insurance especially if you have minor children

Make a plan for managing your money and continuing to save for retirement
- Pay off credit card and other debts if you can
- Saving even a little will help
- Create a budget that factors in caregiving costs

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Leaving a Job/Working Part-time to Provide Care

Exhaust all other options before leaving a job or reducing hours.

- Talk to family members about getting more help
- Find other resources available—Eldercare Locator (Eldercare.acl.gov) and Benefitscheckup.org
- Even staying an extra year can make a big difference.
- Investigate whether FMLA is an option

Consider your retirement vesting and benefits schedule – can you work at least until you are fully vested?

Resist the urge to cash out retirement benefits!

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So Now What?
Figure out How Much Income You Will Need

Retirement Income Needs/Wants

Know your **needs** in retirement:

- Income - to cover day-to-day expenses such as bills and discretionary expenses like travel and eating out and unexpected shocks
- Health and prescription coverage – this will become a bigger part of your budget as you age
- Long-term care – there is a good chance you will need some long-term care services at some point

Women generally need more than men because they live longer

How do you want to spend your time/money in retirement?

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Health Care Costs/Long Term Care(LTC)

- A couple at age 65 is estimated to need $270,000 to pay for healthcare costs in retirement
- A retiree spends $4,300/year on out-of-pocket health care costs – this can be a third of your Social Security payment
- About 7 in 10 people turning age 65 today will need some type of LTC services – women need care longer than men
  - About 3.7 years on average
- Both of these needs can be shocks to even the best financial planning

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Know what your retirement will cost –
What is Your Number?

Figure out how much income you will need in retirement

Even a best guess estimate is helpful

Lots of great tools and online calculators make this easy

But – you may have an unplanned workforce break

Examples:

- **T. Rowe Price** and **Transamerica** calculators
- **RetireOnYourTerms.org** – Calculators Tab
- Social Security Planning Calculators – **www.ssa.gov**

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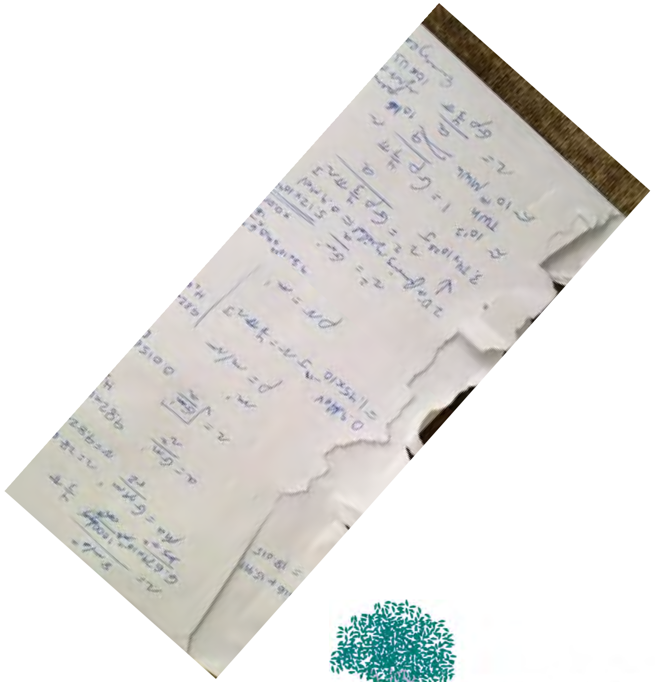
The "Back of the Envelope" Approach

- Gives you a place to start based on what you live on today:

$35,000 (your income today after taxes)

<u>X 25</u> (estimated years in retirement)

$875,000



- This doesn't reflect inflation

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Sources of Retirement Income

Know where the $$ will come from - common sources include:

- Work-based pension
- 401(k) or 403(b)-type plan at work
- IRA
- Personal savings/investments
- Social Security
- Part time work

What do you have/what does your spouse or partner have?

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Sources of Retirement Income

Make a list of each source of income you (and your spouse) have and be able to answer these basic questions for each:

- Where is the account based (bank, financial company, etc.)?
- How much is in the account now?
- How are contributions to the account being made and for how much?
- How is it invested – look at all accounts together
- If married, what happens to the account if one spouse dies?

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Now What?

- Figure out trade-offs you are willing to make
  - For example, adjust your current lifestyle and/or the age you were planning to retire
- Most people in retirement have their spending decline with age *but* there can be a significant spending increase right after retirement.
  - Only about 20% of people keep their spending about the same after retirement

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So Now What
Get the Most from Social Security

Social Security Benefit Types

- Retirement
- Spousal
- Survivor
- Disability Insurance
- Supplemental Income

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Social Security Retirement Benefit

- Retired worker benefit
- Full benefit replaces about 40% of your pay on average
- Full Retirement Age(FRA) – get benefit with NO reduction
  - **Age 66**
    if born between 1943-1954
  - **Age 66+ 2 months**
    if born between 1955-1959 add 2 months each year until 1960
  - **Age 67**
    if born in 1960 or later

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Social Security Claiming Age Example

At full retirement age of 66: receive full benefit amount

Claim at 62 (earliest): − 25% reduction in benefit

Claim at age 70 (latest): + 32% increase (8% each additional year)

Retirement Age	Monthly benefit
62 (early retirement)	$758
66 (full retirement)	$1,000
70 (latest)	$1,320

What Impacts your Social Security Benefit

First, you must be “fully insured” – 40 credits/10 years

- You get 4 credits/yr. if you earn over $5,200/yr.

Size of your earnings (taxes of 6.2% on earnings up to $132,900 in 2019)

How many years you have worked before you start your benefit

Qualifying for spouse/divorced spouse/survivor benefit

Age you start your benefit

Starting your benefit while you are still working or during a calendar year that you worked

Note Social Security benefits are increased each year with cost-of-living

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Impact of Number of Years Worked

SS uses highest 35 years of earnings to calculate your benefit –if you did not work 35 years, zeros are used for those years

- Zeros bring down average

Your earnings are indexed to reflect changes in average wages

- $10,000 earned in 1980 is indexed to about $40,000 today

Can you extend your work years – to get to 35 years or to replace higher earning years for lower ones?

- If you make $60,000 and have worked for 25 years, working 1 more year is worth $10,000 in additional lifetime income --- for 5 more years of work, you get $51,000.

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Qualifying for Spousal Benefit

You may be entitled to spousal benefit if you worked less years/had lower earnings than your spouse

If you wait until your FRA, you get one-half of what your spouse would get at their FRA

Spousal benefit only payable after spouse claims – before that you can collect your own worker benefit if you have one

Joe's retired worker benefit:	**$800**
Kim's retired worker benefit:	**$300**

Kim takes the spousal benefit at **$400** a month

If Kim's worker benefit was **$500** a month, she would not receive a spouse benefit

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Special Circumstances --Impact of Divorce and Widowhood

- Women traditionally marry men who are older.
- After divorce or death of a spouse, women are *less* likely to remarry. (Standard of living also usually declines.)
- By age 80, nearly 60% of divorced women are living in poverty.
- Periods of widowhood lasting 15 years or more is not uncommon.

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Qualifying for SS Survivor Benefit

Very important to coordinate when you and your spouse start to collect your benefits:

- Delaying claiming can impact survivor benefit – if your spouse is higher earner and likely to die first, delaying their benefit to get interest credits may make sense
- Widow’s benefit will then be higher when most needed at older ages

Survivor benefits payable at 60

- Generally receive the larger of your two benefits, not both, so household SS earnings may decline significantly

May be eligible for survivor benefits if divorced and ex-spouse is deceased

(you can be remarried if marriage was after age 60)

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Qualifying for Divorced Spouse Benefit

If marriage lasted 10 years and you are now single, you can claim their spousal benefit:

- If it is more than your worker benefit
- As long as you have been divorced 2 years
- Even if spouse has not claimed benefit yet, as long as they are at least 62

Receiving benefit on ex-spouse record, does not impact their benefit or any current spouse benefit

Another consideration on divorce – your/your spouse's retirement is joint asset

- Consider "QDRO" – court order to split spouse pension

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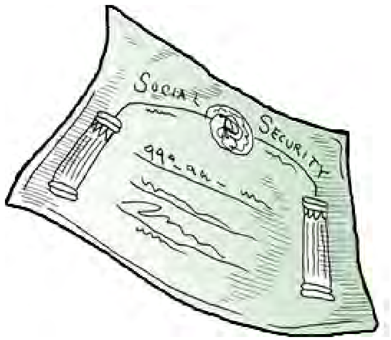
Social Security: What you need to do



- Learn the facts
- Look at “worst” case financial scenario – you live a long life
- If over 60, review SS estimates which they send
- Call 800-772-1213 or go to **ssa.gov** to get an estimate of your future Social Security benefits. Set up an online account at **ssa.gov/myaccount**
- When you are ready to retire, leave plenty of time to get questions answered and understand your options – if it doesn’t sound right, ask again

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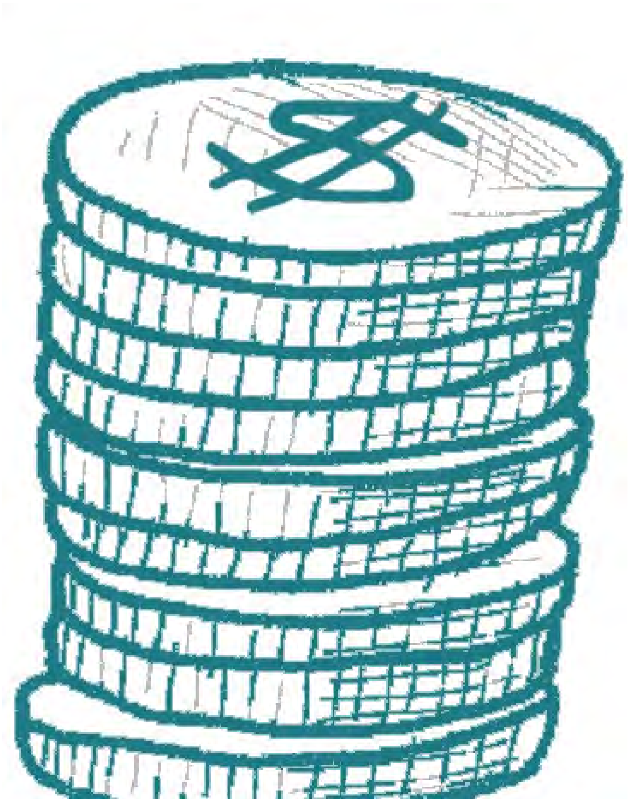

So Now What
Get to Know Your Investment Account Options

Save Through Your Company Sponsored Plan

- Opt In! (or don’t opt out!)
- Contribute as much as you can straight from your paycheck
- Take full advantage of the match
- Invest wisely – educate yourself but **get started**
- Roll over any amount you may have saved if you leave your job – don’t cash it out!

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Defined Contribution - 401(k)/403(b) Plan

Employer:

- Can automatically enroll you or more common – you must make decision to enroll
- Decides years needed to be vested in employer contribution
- Decides matching % on your contribution; such as 50 cents for every $1 up to 6% of pay

You:

- Contribute through paycheck deduction
- You may have choice between before tax or after tax (Roth)
- Decide what % of pay to invest – don't leave $ on the table and consider "catch-up" contributions if over 50
- Decide in what funds to invest – consider target date fund

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Impact of Pre-Tax Investing

Your contributions can go into the plan tax-deferred

	Contribute $1200 to your retirement savings plan tax-deferred	Start with $1200 to save outside your retirement savings plan
Taxes (assuming a 22% tax rate)	$0	$264
Amount left to save	$1200	$936

You can save $264 more if saving pre-tax.

Once you make your election to contribute to an employer's retirement savings plan, you save money every time you're paid –so participate!

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Defined Contribution/ 401(k)/403(b) Plan

What to do with your account when you leave your employer?

You can leave your account with your employer

- Stays in same investments you have chosen
- Fees usually lower if plan size is large
- Move it when it makes sense

If you decide to move it

- Make sure you follow rules to not incur taxes
- See if you can roll it over to your new employer's plan
- If you decide to move it to retail provider (bank/investment firm) IRA – ask about fees you will be charged – not obvious since embedded in funds

You must begin distributions by April 1st after you turn 70 ½ (RMD date)

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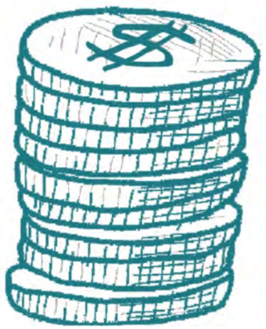
IRAs



Individual Retirement Accounts

Meant for retirement savings –better than taxable accounts/savings accounts

Accessible through small employers or directly through financial institutions

Two types: Traditional and Roth

If you are saving for retirement – do it in an IRA!

Check beneficiary designations – yours and spouse’s, especially if in second marriage

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Traditional IRAs

Tax deduction on contributions

- Based on income (you have to have income to contribute) and whether you/your spouse are in a plan at work

IRA distributions received in retirement are taxed

If you take money out before age 59 ½, you will owe taxes and a penalty

Must start taking money out by RMD or pay a penalty

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Roth IRAs

You contribute after-tax money – the amount you can contribute depends on income

Pay no taxes when you withdraw your funds; the earnings are never taxed

If you are less than 59½, you can make tax-free and penalty-free withdrawals 5 years after opening your account for certain medical expenses, higher education expenses or to buy your first home

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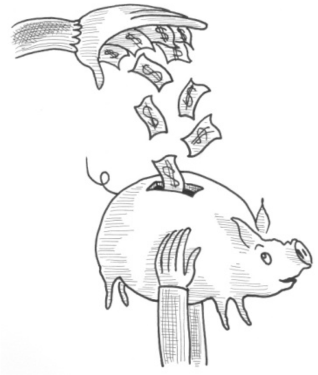
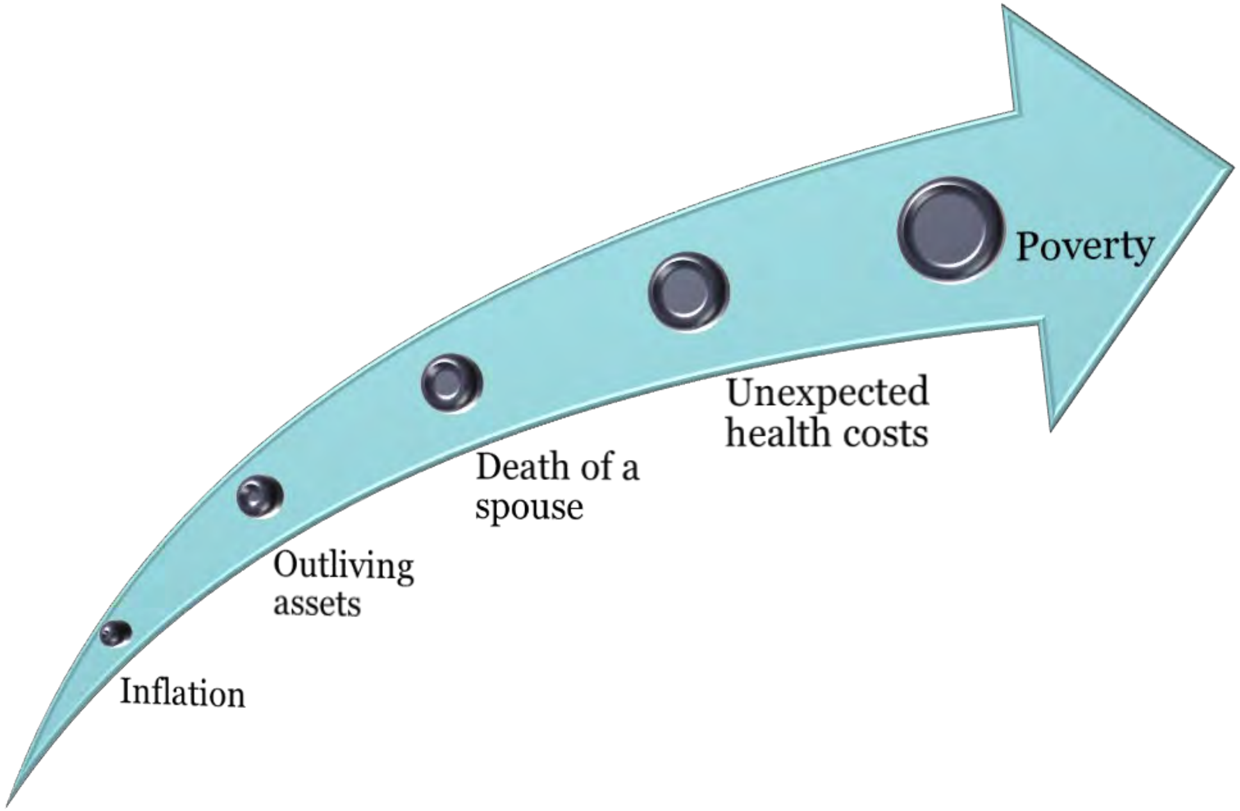
Yearly IRA contribution limits – per person

	**If you are under 50**	**If you are 50 or older (catch up)**
2019	$6,000	$7,000

So Now What

Plan for a Long Road Ahead

Financial Risks of Longevity



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Save at All Ages and Start Early

Savings in Qualified Plan -- contribute pre-tax money and save twice

Saving Early – Pay Yourself First --use power of compounding – investments generate earnings and reinvested earnings generate earnings

Find Extra Dollars to Invest -- save $4/week for 25 years and boost savings by $16,000☺

Child's Education – you can take out loans – can't take out loans for retirement

Tackle Debt to Save More – downscale/use cash/pay more than minimum

Don't Cash Out Savings When Changing Jobs

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Longevity Planning

- *Consistent* retirement income is important part of
  - managing longevity risk
  - rising health care costs and
  - longer life expectancy

- How do you convert/spend down your savings to have income you need each year and not run out of money?
  - Rules of thumb are just that and don't reflect individual circumstances

- Should you be planning to work longer if you can --- each year of working is one year of more income and not tapping into savings or taking Social Security early?

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How to Get Lifetime Income

- Social Security is best source of lifetime income for many and it is inflation protected – but remember in general it is only about 40% of your working income
- Workforce pensions are generally annuities payable for life
- Does your workplace savings plan allow you to take a stream of payments instead of a lump sum?
- Should you use some savings to purchase an annuity if you are not getting any workplace annuity benefits?

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Considerations in Buying an Annuity

- Least complicated annuity requires a payment in exchange for monthly benefit for rest of your life with no refund if early death
- Other annuities are more complicated with features to have benefit tied to investments and/or provisions to protect policy holder in case of early death
- Most individuals prefer a mix of having cash on hand for unexpected expenses and/or to leave to heirs and some level of guaranteed monthly income
- Annuities can be complicated with hard to compare features/prices/surrender charges/commissions and fees
- Resource: acli.com/Consumer-Info/Annuities
- NAIC.org - A Shoppers Guide to Long Term Care Insurance

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Key Takeaways

- The systems we rely on in retirement are complicated, but it's worth taking the time to understand them
- Decisions we make can have long-lasting financial implications. Mistakes can be costly!
- Take ownership over your future! Figure out your options for claiming Social Security & enrolling in Medicare BEFORE you turn 65
- Does this make your head spin? – You are not alone!

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Financial To-Dos For the Decades

Actions to take now

Early Stages of Career --- pay off debt/create spendingpl an/take advantage of employer match/invest for long term/build emergency fund

Mid-Career --- run retirement projection to make sure savings on track/review your investment strategy/manage risk with insurance protection

Approaching Retirement – evaluate income sources like SS, pension along with assets/upgrade skills needed for employment/pay off debt

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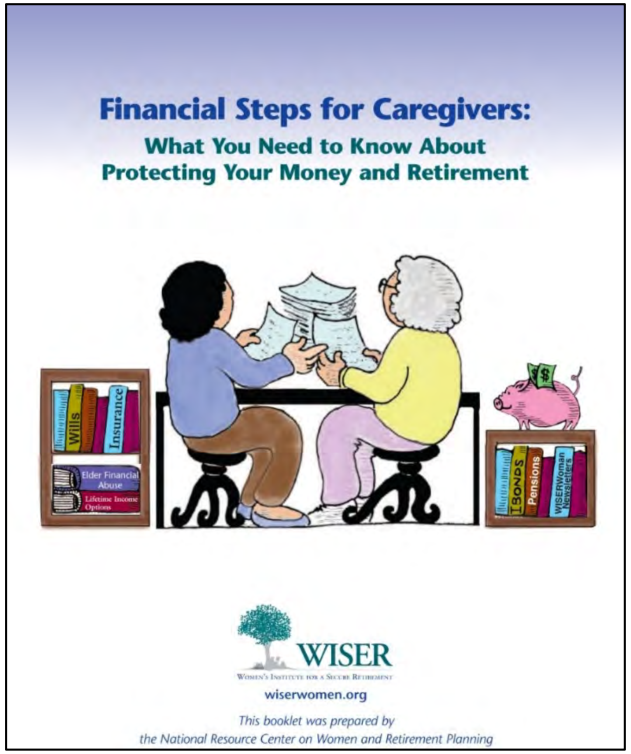
Caregiver Resources from WISER

WISER has been helping caregivers for more than 22 years.

View or download a copy of the booklet and other resources at wiserwomen.org

Visit WISER's booth in the exhibit hall!



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Thank you!

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