

Flexible Planning for Multiple Roles: What Women Really Need to Help with Retirement Savings



RETIREMENT

MAY 2011

“A quiet economic and social revolution is taking place... a revolution of, by, and for women, driven by a quest for more—more time, more value, more peaceful and secure lives.”

– Michael J. Silverstein, The Boston Consulting Group

In the context of more success, more choices, more responsibility, and her ever-shifting roles, a woman’s retirement savings and income strategies must keep pace with her unique needs and perspectives. Her retirement plan must offer realistic solutions for the challenges she faces, which can include:

- *maximizing retirement savings in early years, so she can take full advantage of the potential for compound growth as she moves into and out of **care-giving roles**;*
- *finding an investment mix that provides growth potential, but recognizes her **inclination toward more conservative investments**; and*
- *seeking to preserve and extend her retirement income with lifetime income products, such as annuities and Social Security maximization strategies that address her **longer life span**.*

This article explores these three areas in more depth and suggests ways a woman and her Financial Advisor can pursue retirement planning and investing based on her individual needs.

There’s no doubt that American women’s roles at home and in the workplace have changed dramatically over the last century—and even the last decade. Today, women hold half of all jobs in the U.S., fill more than half of the seats in college classrooms, and assume the role of breadwinner (or co-breadwinner) in 60 percent of American families.¹ Businesses owned or co-owned by women represent nearly 46 percent of all firms in the U.S.²

Still, along with the personal and financial successes many women have achieved—and new responsibilities and time commitments they have taken on—women remain the primary caregivers for children or aging family members, moving in and out of that role throughout their lifetimes. Those shifts alone can be enough to permanently derail women’s ability to save for retirement. But when added to their more conservative views on investing and their longer life spans, they present significant challenges to successful retirement savings and income planning.

The fundamentals remain the same

When planning for retirement, of course, the fundamental challenges remain the same, regardless of gender. Both men and women must:

- find ways to balance life’s demands and save as much as possible during their working years,
- invest wisely so these assets have the potential to grow without taking on too much risk or triggering too many taxes, and
- manage income in retirement so what has been saved will last for a lifetime.

But these challenges may be amplified for women because of their **dual roles as wage earners and care-givers**, their **attitudes about investment risk**, and their **longer life spans**.

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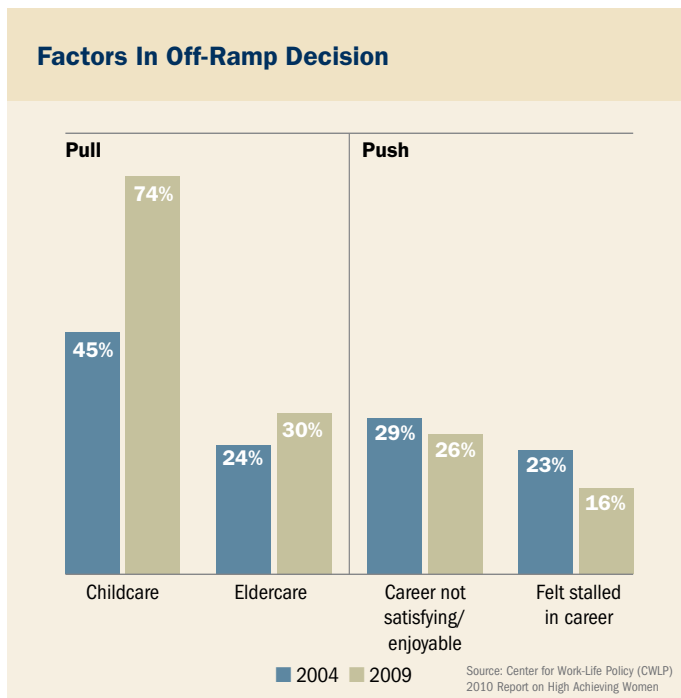
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Balancing work and care-giving

While the roles of both parents in affluent households are changing, women still take on most of the child care responsibility. In their landmark reports on high-achieving women in 2005 and 2010, the Center for Work-Life Policy (CWLP)³ found that the most common reason that career-oriented women left the workplace—taking a virtual “off ramp”—was to spend more time with their children. (The desire for a better position or a more like-minded workplace paled in comparison.)

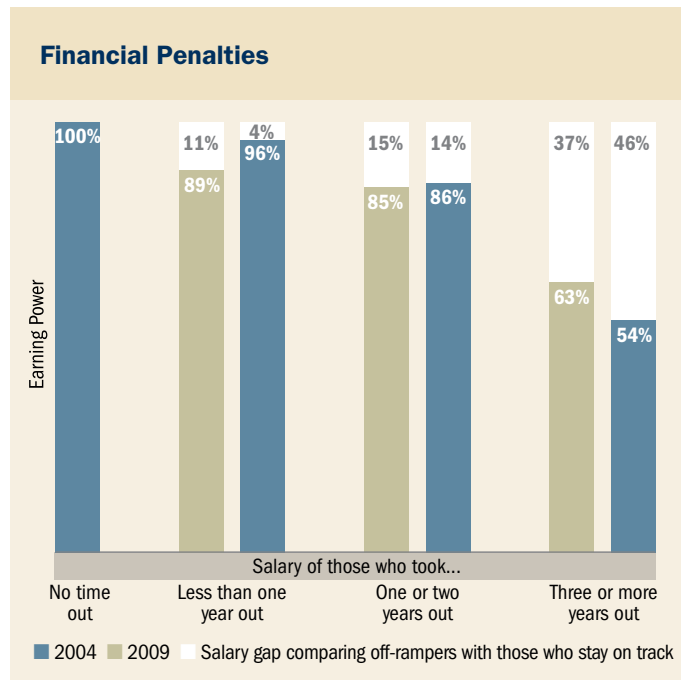


Their results are shown in the chart above: in 2009, 74 percent of these high potential women left work to spend more time with their children, up from 45 percent in 2004; and 30 percent interrupted their careers to care for a parent or elder family member in 2009, up from 24 percent five years earlier.

Even single women may need to assume the care-giving role. In the same study, 21 percent of women without children left work for eldercare responsibilities.

The long-term effect of “off-ramping” on a woman’s lifetime earnings is startling. “When a woman leaves the workplace to take on a care-giving role, she also reduces her *future* earning potential,” says Laura Sherbin, vice president and director of research at the CWLP and one of the co-authors of their 2010 report. And the more time she takes off, the more dramatic the decline generally becomes. As the chart to the right shows, off-ramped women in the study who returned to work earned significantly less than their peers who had a continuous work experience. “These women, on average, lost 16 percent of their earning power by leaving, even

temporarily,” notes Sherbin, “but by staying out three years or longer, they reduced their earning power by almost 50 percent.”



Although her salary might be on parity in the beginning, the CWLP study also found that once a woman leaves work temporarily to have children, she will likely never catch up to her male and *female peers* who don’t take time off.

Even if women leave work for only a short period, the financial consequences can be huge. Because their career interruptions put them out of step with their male colleagues’ linear progression, these women who left the workforce earn only 71 percent of the male wage by the time they reach the forty to forty-four age group.

Of course, 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, use flexible work arrangements, 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 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.

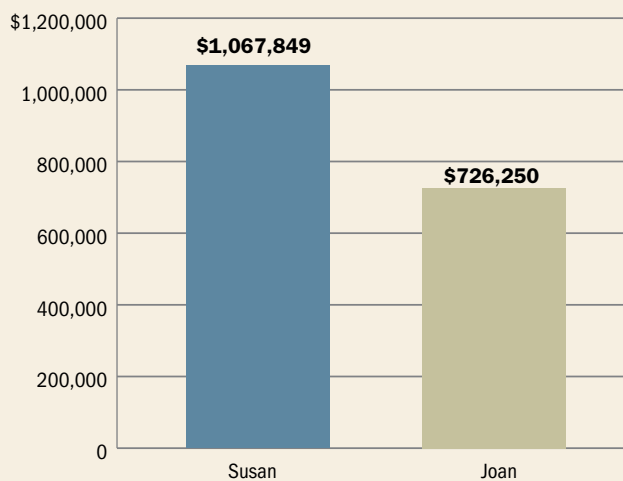
The gaps in a woman’s earnings history can also result in lower Social Security benefits than if she had worked steadily through the years.

Strategies for women in 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. That combined strategy takes advantage of potential tax-deferred returns that have the opportunity to compound over many years.

The chart below suggests how powerful that strategy can be. It compares the hypothetical results of two married women who start contributing to tax-deferred retirement accounts at age 22 and earn a hypothetical average annual return of 8 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 Importance of Continued Investing



- **Susan** 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. The total she invests over time is \$129,000. Her balance at age 65 is a hefty \$1,067,849.
- **Joan** 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 advantage of the “catch-up” IRA provisions. The total she is able to save tax-deferred over time is \$114,000. Her balance at age 65: \$726,250.⁴

Source: A Merrill Lynch internal hypothetical example.

The difference between the two strategies at retirement is significant: more than \$340,000. 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 SEP IRA**.

In addition, when she experiences a change in employment, she can also consider **rolling over her 401(k) into an IRA** potentially offering her more investment choices and making it easier to manage and track progress.

Retirement saving strategies for women with changing roles

- Contribute as much as possible to employer-sponsored retirement plans while working.
- Open an IRA and maximize contributions, including “catch-up” contributions (if eligible).
- If self-employed, even part-time, consider a SEP IRA.
- Participate in a Spousal IRA (if eligible).
- Consider rolling over any 401(k) or other employer-sponsored retirement plans from previous employers into an IRA for more investment choices and streamlined account management.

Seeking an appropriate investment mix

If a woman's workplace retirement savings are diminished by her need to straddle 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 her maximize the growth potential of her retirement savings.

Of course, investing for growth typically means taking on more risks. And most research suggests that 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.⁵ 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.⁶

The fact that women are uncomfortable with riskier investments comes as no surprise to the researchers who have studied male and female attitudes toward investing over the last decade. Among the conclusions of these studies, summarized by David F. Babbel, professor of Insurance and Finance at The Wharton School:⁷

- Men are more likely than females to place their funds in risky investments.
- Men are more likely to allocate their assets to "mostly stocks."
- Women are more likely than men to invest in less risky securities, such as bank CDs and U.S. Treasury securities.
- Men are less likely than females to annuitize their wealth at retirement.

In addition to taking a more conservative approach, women are also more inclined to seek financial advice from other people, says Annamaria Lusardi, professor of Economics and director of the Financial Literacy Center at Dartmouth College. "When we evaluate the planning tools people use, we find that women rely more on both family and friends, and financial experts," reports Lusardi, "and women who consult financial planners are more likely to be successful in drawing up their retirement strategies."⁸

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

Strategies for building a diversified portfolio

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 and risk tolerance.

For a woman balancing many roles and time demands, a **managed account** where asset allocation and investment decisions are made for her—based on an analysis of her goals, time frame, and risk profile—may be a good choice for retirement investing. Managed accounts are advisor-based and give a woman the choice of making all investment decisions with the guidance of her Financial Advisor or delegating investment decisions to the advisor. Some managed accounts may also offer tax minimization strategies. (All will have asset-based fees.)

A woman can also check with her investment and tax advisors about the merits of **converting her Traditional IRAs into Roth IRAs**. There are several reasons she may want to consider this:

- **She can take advantage of the Roth IRA's tax benefits.** While most high net worth households are still not eligible to *contribute* to Roth IRAs, all individuals, regardless of income, can now *convert* their traditional IRAs to Roth IRAs. The main benefits are the Roth IRA's ability to provide tax-free growth potential and tax-free qualified distributions (after age 59 ½ and if held for five years or more⁹). But ordinary income taxes must be paid on the conversion, so this may be a better strategy for women who have money elsewhere to pay for the taxes due to conversion and who may be temporarily in a lower income tax bracket.
- **The Roth IRA can help her transfer her assets tax-free to the next generation.** For women looking to pass on wealth to her children without saddling them with onerous taxes, a Roth IRA would provide the ability to leave federally and potentially state tax-free assets to her children or grandchildren.
- **The assets in the Roth IRA can continue to seek tax-free growth throughout her lifetime.** Because a 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 seek tax-free growth for many years.

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.

Longevity and lifestyle considerations

One of the biggest challenges women face in retirement planning is, in fact, good news: Women live longer.

On average, women outlive men by five to seven years. So women 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 an average of 20 more years.¹⁰

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 desires. According to a poll of retirees by Bank of America Merrill Lynch in 2011,¹¹ affluent women have high expectations for their retirement years, defining them in terms of travel, personal fulfillment, and involvement in meaningful community and charitable activities.

A similar Merrill Lynch survey in 2010 found that 70% of affluent women were concerned that increasing healthcare costs could derail these future plans.¹²

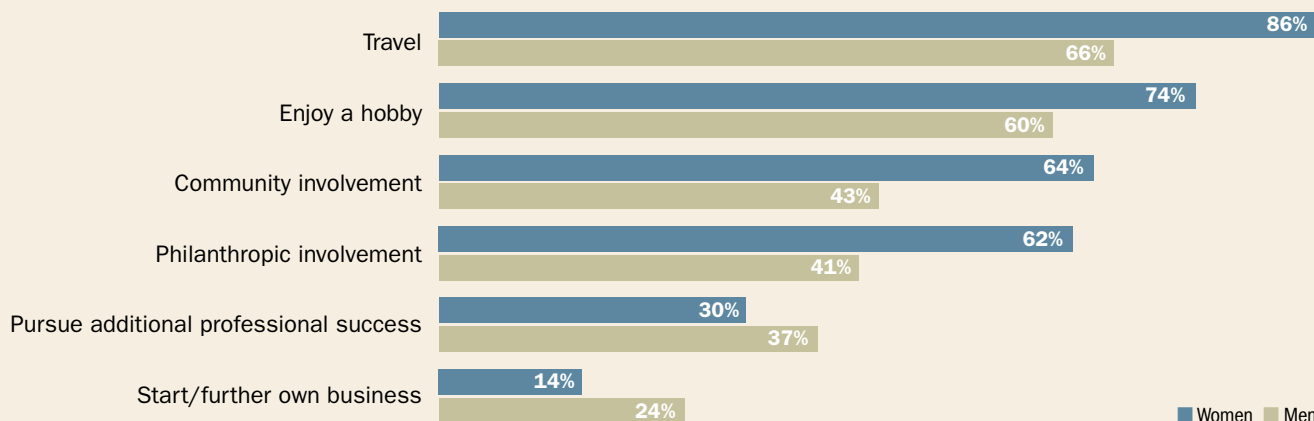
That concern may be warranted. According to a 2010 Retirement Confidence Survey from the Employee Benefits Research Institute (EBRI),¹³ women who retire at age 65 in 2009 may need up to \$242,000 in savings to cover health insurance premiums and out-of-pocket medical expenses in retirement. (This assumes that she has no retiree health coverage through a union, company or military group.) For men, the figure is \$173,000.

Not only will women generally pay more than men for health insurance in retirement, but with greater life expectancies, they are more likely to need help with daily care for a longer time in their later years. A recent University of California report noted that about 70% of 65-year-olds will need some type of long-term care during their lifetimes.¹⁴ For women that care will last 3.7 years—compared to 2.2 years for men.¹⁵ And the costs will likely be much higher than the average annual costs shown below for different levels of long-term care in 2008:¹⁶

Average annual costs of long-term care

Home healthcare aide:	\$49,400
Assisted living residence:	\$36,090
Nursing home care for a semi-private room:	\$68,408
Private nursing home room:	\$76,460

Affluent Women Aspire to Be Even More Active During Their Retirement Years than Men



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 guaranteed¹⁷ 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.

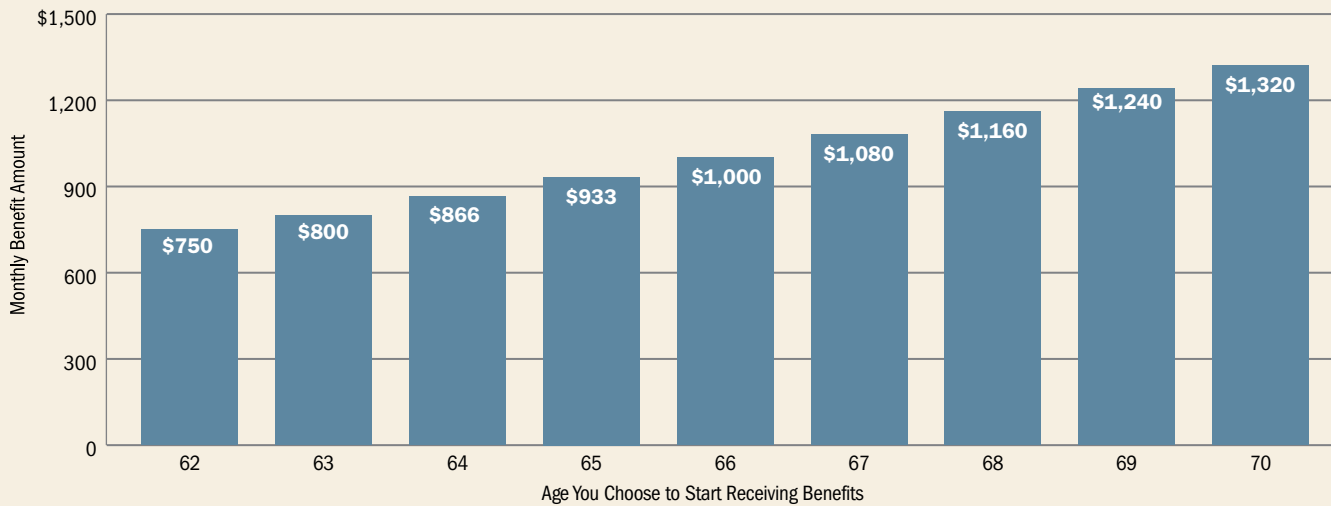
The graph below shows how delaying Social Security may increase the monthly benefit. In addition to regular Cost of Living Adjustments, the Social Security Administration (SSA) guarantees an annual increase of seven to eight percent, for every year a person defers collecting beyond her Full Retirement Age—up to age 70 when benefits are maximized.¹⁸

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 husband begins taking his 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.

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.

Monthly Social Security Benefit Amounts Differ Based on the Age You Decide to Start Receiving Benefits

This example assumes a benefit of \$1,000 at a Full Retirement Age of 66.



Strategies to help retirement savings last a lifetime

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 so she can remain in control of where and how she receives **long-term care**.

She can also talk to her Financial Advisor about opportunities to create **guaranteed lifetime retirement income** to help ensure she does not outlive her money. If appropriate, she may want to consider purchasing an annuity with a portion of her retirement savings to provide a guaranteed retirement income stream.¹⁷ 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 to explore options for **deferring Social Security payments** with her tax advisor so she can increase their future value.

Strategies to help make retirement savings last

- Include money to meet long-term healthcare costs in your retirement savings goals.
- 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, such as annuities, that can provide additional income in retirement.
- Explore maximizing Social Security by delaying payments now in favor of higher benefits later on.

The goal: A plan that addresses each woman's individual needs

Everyone faces similar challenges when creating retirement investing and income plans—how to save more, invest wisely, and make the money last.

But a woman's multiple work and life roles, cautious approach to investing, and unique health and longevity profile add an extra dimension to these challenges. She needs a Financial Advisor who can listen well, think differently, and offer solutions that address how she lives—and succeeds—every day. Whether she is single, married, or raising a family on her own, her advisor must take the time to understand her personal and financial goals, appreciate her unique perspective, and help her tailor her retirement plan to her individual situation and resources.

A Merrill Lynch Financial Advisor can work with you to understand your priorities and help you achieve the retirement lifestyle you want.

The Merrill Lynch Wealth Management Philosophy

At Merrill Lynch Wealth Management, our Financial Advisors use a relationship-based, consultative approach to provide advice and guidance based on your unique needs.

Speak to your Merrill Lynch Financial Advisor who will:

- Take time to understand your short-term challenges and long-term financial and non-financial goals.
- Suggest new ways to help you manage your investments while juggling competing priorities and multiple roles.
- Help you increase your investment 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 prepare to leave the legacy you intend.



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Annuities are long-term investments designed to help meet retirement needs. In essence, an annuity is a contractual agreement in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. Annuity contracts have exclusions and limitations. Early withdrawals may be subject to surrender charges, and, if taken prior to age 59½, a 10% federal income tax penalty may apply.

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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 The Shriver Report: A Woman's Nation Changes Everything By Maria Shriver and the Center for American Progress, edited by Heather Boushey and Ann O'Leary, October 16, 2009

² US Census, 2007, http://www.census.gov/newsroom/releases/archives/business_ownership/cb10-184.html

³ Off-Ramps and On-Ramps Revisited, Center for Work-Life Policy (CWLP), © 2010

⁴ The data illustrated in this graph is hypothetical and does not reflect the performance of any particular investment. The chart assumes: Annual 401k contributions and IRA contributions made on January 1, an 8% 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.

⁵ *Leveling the Playing Field: Upgrading the Wealth Management Experience for Women*, The Boston Consulting Group, July 2010

⁶ *Women Want More (in Financial Services)*, The Boston Consulting Group, October 2009

⁷ *Lifetime Income for Women: A Financial Economist's Perspective*, David F. Babbel, Fellow, Wharton Financial Institutions Center, University of Pennsylvania, August 2008

⁸ *Planning and Financial Literacy: How Do Women Fare?* Annamaria Lusardi, University of Michigan Retirement Research Center, October 2006. Lusardi is Professor of Economics at Dartmouth College and a Research Associate at the National Bureau of Economic Research.

⁹ For a distribution from a Roth IRA to be federally 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 of your Roth IRA contributions, 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 penalty 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 federal tax unless an exception applies.

¹⁰ Social Security Administration <http://www.ssa.gov/pressoffice/factsheets/women.htm>

¹¹ *Merrill Lynch Affluent Insights Quarterly*, January 2011

¹² *Merrill Lynch Affluent Insights Quarterly*, March 2010

¹³ EBRI Annual Retirement Confidence Survey, 2010 http://www.ebri.org/pdf/briefspdf/EBRI_IB_03-2010_No340_RCS.pdf

¹⁴ *Planning and Paying for Long-Term Care*, University of California, February 2010 <http://ucanr.org/freepubs/docs/8383.pdf>

¹⁵ National Clearinghouse on Long-Term Care, 2008

¹⁶ Genworth Financial, 2008

¹⁷ Guarantees are subject to the claims paying ability of the underlying insurance company.

¹⁸ Social Security Administration, 2010