WOMEN & WEALTH

Retirement Planning after 40

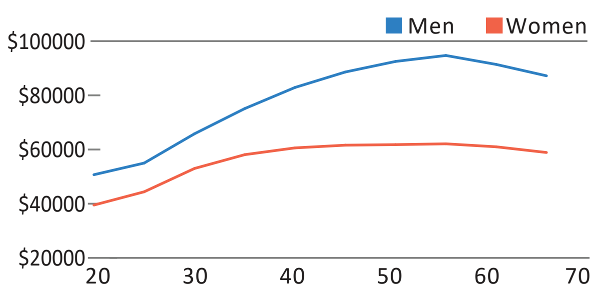
Women face greater retirement challenges than men. A Prudential Financial report found that due to earning discrepancies, smaller Social Security benefits, and less retirement accumulation, women have, on average, 42% less in retirement income than men. Consider that in the context of longer life-expectancy and the resulting challenges more common to women: more years to stretch assets across, higher long-term care expenses, and the increased probability of widowhood. A UBS study reports that, ultimately, 8 out of 10 women will be solely responsible for their financial well-being. This means that women need to plan uniquely to confront these challenges.

In this installment of Women & Wealth, our financial advisors offer practical advice for women over 40 years old on how to take steps to meet their retirement needs.

The 40s: Make the most of your peak earning years

By the time women enter their 40s, they're likely close to earning their peak salary; according to data compiled for the Financial Times by the salary information website PayScale, the average age which annual salaries for women in the US stopped growing was 40 years. With this information in mind, these higher earnings should be maximized.

Wage Growth by Age and Gender



Source: PayScale Earnings data: survey of 972,788 workers between July 2015 and July 2018.

> **Max out Retirement plan contributions.** If you work for a company that offers a retirement plan such as a 401(k) or 403(b), take advantage of any available employer match incentives. If you are a small business owner or self-employed, consider retirement plans that are appropriate for your situation such as a SEP, SIMPLE IRA or a cash balance plan. If you are married and one spouse does not work, consider contributing to a spousal IRA. Not only are you saving for retirement, but you are also reducing your tax bill by contributing to a pre-tax retirement plan.

> **Work with a financial advisor** to establish an investment plan that considers your target retirement date and lifestyle. An advisor can help maximize portfolio growth potential by assessing risk tolerance, income needs and other considerations.

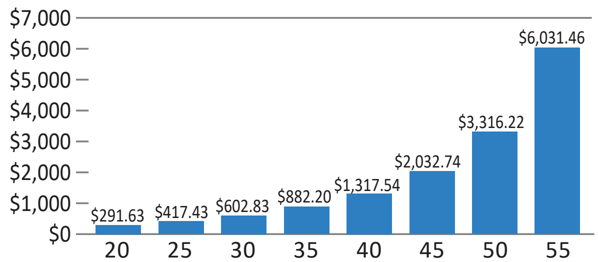
> Perhaps in tandem with your advisor, **consult an estate planning professional** to develop a comprehensive estate plan that considers taxes and your desired family legacy. Begin to organize all your important documents and accounts, ensuring that you know all locations and passwords. Don't forget to consider digital assets – an increasingly important (and valuable) piece of estate plans.

Even as young adults navigate financial demands such as paying down college debts or putting down payments on first homes, retirement savings should be at the forefront of financial plans when entering the 30s and should certainly be addressed by age 40. With compound interest, it's always best to start planning and saving for retirement as early as possible, but leveraging higher salaries in the 40s can keep you on track to reach $1M by retirement age (see chart below).

Compound interest example

If you are age 30 today and invest $600 a month from now to age 65, investments earn an average return of 7 percent a year, by age 65 you'll have $1 million. If you're 40, you'll need to be able to put away about $1,300 a month to get to $1 million by age 65 — still assuming a 7 percent return.

Monthly investment contributions required to have $1M at age 65



Source: Calamos Wealth Management

The 50s: Manage wealth but continue to save

The 50s should see a shift from a wealth accumulation mindset to one of wealth management. While many women at this age may find themselves dealing with aging parents, children's college expenses, and increasing health care costs, it's important to manage expenses whilst continuing to save. Determine exactly what the ideal next chapter of life looks like for you and ensure your plans have you on track to achieve it. Situational changes may provide an opportunity to refresh your financial plan; for example, empty nesters might find that their expenses decline, meaning more money can be invested in retirement.

> **Keep your estate plan up-to-date.** Ensure the strategy for preserving your legacy still aligns with your desires. Now may also be a good time to have a conversation with potential beneficiaries about your future expectations for them.

> **Schedule regular health screenings and start to think concretely about strategies for paying health care costs later in life.** According to Fidelity, a 65-year old couple retiring this year will need $280,000 to cover health care and medical expenses throughout retirement. Get a jumpstart on funding those costs – as longevity increases, long-term care needs are becoming more and more common. The Department of Health and Human Services says a person turning 65 today has a 70 percent chance of needing some form of long-term care in their remaining years. This is especially important for women, as they have higher life expectancies. "Consider long-term care and whether you can self-fund or if you need to purchase a long-term care insurance policy. Often, hybrid plans can offer flexibility and something to pass on to your heirs if you do not end up utilizing the entire benefit," suggests wealth advisor Christina Castrejon.

> **Think tax-efficiently about your savings.** The IRS considers 50 a tax milestone – at this age, you can sock away more tax-advantaged money in your retirement accounts. Workers age 50 and older are allowed to stash an extra $6,000 in 401(k) accounts under the so-called catch-up rule. In 2019, the contribution limit for 401(k) plans is $19,000. As long as your company allows catch-up contributions, your total savings could be up to $25,000. This applies to both traditional and Roth 401(k) plans.

The 60s and beyond: Prepare and preserve your legacy

The average retirement age for women is 62, so although many people envision working longer, you may be starting the next phase of your life sooner than you think. Now's the time to start translating long-held retirement dreams into practical steps.

> **Check up on your investment portfolio and asset allocation strategy.** Does your strategy need to shift in retirement? What are your current levels of risk and how should that change as you age? Will you need to begin withdrawing from your portfolio to supplement income in retirement? If so, where and how will those distributions take place?

> **Consolidate retirement accounts.** Beyond maximizing administrative efficiency, consolidating multiple accounts into one can reduce fees, ensure Required Minimum Distributions are always accounted for and met, and help your beneficiaries better manage the accounts someday.

> **Evaluate your health care options.** You'll qualify for Medicare at 65, but what should you do if you plan to retire sooner? Private insurance or self-insuring can be

expensive, so it might be beneficial to consider an HSA or another funding avenue.

> **Manage expenses by shrinking them.** Think about downsizing your home to reduce costs, or consider settling down for your remaining years in a state with lower taxes.

Conclusion

According to the Women's Institute for a Secure Retirement, women are four times more likely to outlive their spouse; many spend 15+ years as widows. Women need to consider the fact that at some point they may be the sole financial decision maker, possibly much sooner than they think. "It's best to be prepared for unfortunate life situations versus being forced to deal with it at a time when you're emotionally vulnerable. The unexpected loss of a spouse can be a huge financial shock. As an advisor, my goal is to engage and encourage women to take an active role early in their financial life, especially in their 40s and 50s." says Senior Vice President Anita Knotts. She also recommends that clients organize documents, keep them up to date and compile a list of contact information for important professionals such as personal accountants, financial advisors, attorneys and estate planners. Make it a priority to have conversations with family members about your financial position, retirement plans and investments.

A financial advisor and estate planning professional can provide the extra guidance needed for building, managing and sustaining wealth for generations. While it's always best to start accumulating and managing wealth from an early age, even those that may feel behind can implement smart strategies after they reach their 40s to work toward the retirement they desire.

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