Addressing the Women's Longevity Gap

How advisors can add real value by planning for the specific financial challenges women face in retirement

Women face a number of unique challenges in retirement, largely stemming from lower working salaries and greater longevity relative to men. The conventional wisdom about how to deal with these challenges has been sound, if extremely broad: Women should plan to save more in order to make up for any retirement shortfall they experience.

However, there are more finely honed ways to both diagnose the extent of the problem and offer effective planning solutions. First, the problem: The financial and longevity disparities between women and men create a unique challenge that we describe as the "women's longevity gap." Given women's longer life spans and the fact that women in opposite-sex marriages tend to marry men who are older than they are[1], women often must be prepared to cover their expenses single-handedly for more than four years after their husbands die. Compounding the problem, this longevity gap occurs during a phase of life when healthcare expenses will be at their highest.

Women's longevity gap: The period in which many women will need to cover their expenses single-handedly after their husbands die.

Financial advisors have an opportunity to help female clients and their spouses plan more strategically to address women's longevity gap. That includes adopting specific strategies to address the financial toll of end-of-life years, when medical costs often mount. Advisors also can use specialized tools to provide women with highly personalized advice that factors in their age, income, savings, health conditions, marital status and expected income from Social Security and/or pensions. Ultimately, advisors can help women mitigate—and potentially even eliminate—the longevity gap and the other challenges that plague female retirees by taking the following steps:

- **Make financial plans based on actuarial longevity**
- **Plan for men's end-of-life costs and women's remaining survivorship income**
- **Address retirement health care costs today**
- **Discuss finances, including Medicare surcharges, for the surviving spouse**
- **Start Social Security optimization planning today (with a focus on survivor benefits)**
- **Plan for long-term care based on expected length of stay by gender**

The following paper details how financial professionals can build robust plans that support female clients' lifetime financial planning needs.

Make financial plans based on actuarial longevity

A healthy 65-year-old woman has an additional life expectancy of 24 years—meaning she is expected to live to age 89. That compares to a life expectancy of 87 for a healthy 65-year-old man.[2] And, of course, these figures are merely averages: HealthView Services data indicates that a given client may live much longer, or much shorter, than the average, largely depending on how well, or poorly, their health conditions are managed as they age. Typically, with like conditions, women will live 2-4 years longer than their husbands.

Table A: Average Life Expectancy for a 55-year-old, by Gender and Health Status

Health Status	Life Expectancy, Male	Life Expectancy, Female
Healthy (no conditions)	87	**89**
Type 2 Diabetes	77	**80**
Cancer	79	**82**
Cardiovascular Disease	84	**88**
High Blood Pressure	86	**88**
High Cholesterol	84	**87**
Tobacco Use	80	**83**

Note: Men tend to marry women two years younger than they are, so the cumulative survivorship gap may reach four years or more, on average.

To address these disparities, some advisors assume that clients will live to age 90, 95 or even 100.[3] Others take family history into account—for instance, adding five years to a financial plan if a client's parent lived into their 90s. While these approaches are well-meaning—no one wants to create a plan that over-estimates longevity and limits annual income allowed—they may be based on unfounded assumptions. For instance, researchers have found that hereditary/DNA factors account for just 7% of an individual's life span—likely not enough to influence a massive shift in that person's financial plan.[4] Still, financial professionals may choose to add a number of years as a "buffer" to actuarial longevity estimates in case a client outlives their predicted life expectancy.

Instead of relying on anecdotal information, advisors should focus instead on as much relevant data as they can, including personalized data and actuarial longevity figures. Using just a few data points—the state where an individual lives (which influences health care costs), their gender and whether they have one of a handful of common health conditions—it is possible to forecast individual life expectancy and health care costs with much greater precision.

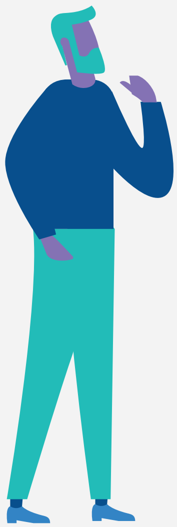
With this information, advisors can develop retirement income plans that are appropriate for their clients' expected life spans and avoid overly conservative plans that restrict spending unnecessarily. While this approach is useful for all clients, it may be particularly critical in assessing women's long-term financial needs and taking proactive steps to address them. Important considerations – each of which are be detailed in this paper – include life expectancy, spousal age differentiation, end-of-life costs for the male, required income for the surviving spouse, and Social Security survivor benefits.

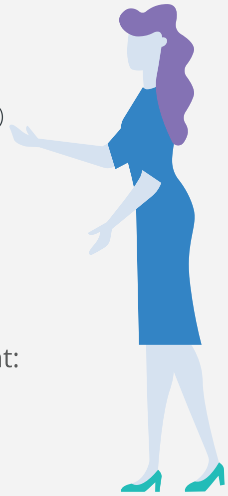
Address retirement health care costs today

Health care costs in retirement are a key priority for many clients. Women in particular are concerned: Three in five women ages 60 and over say they are worried that their health care costs will exceed their retirement income.[5]

That concern is well founded: On average, women pay more for health care in retirement than men. The extra cost is primarily attributable to women's longer life spans, rather than increased use of medical services. Compare the difference in projected retirement health care costs between a couple in their mid-forties. These figures are based on HealthView Services' actuarial data from 530 million claims.

Table B: Projected retirement health care premiums, 45-year-old husband and 43-year-old wife





	Healthy, 45-year-old man	vs.	Healthy, 43-year-old woman
Costs*:	**$492,207** ($184,947 in today's dollars)		**$691,635** ($230,691 in today's dollars)
Investment today to fund those costs**:	**$41,525**		**$46,878**
Age during retirement:	**65-87**		**65-90**

**Costs include premiums for Medicare Parts B and D, and supplemental insurance Plan G. ** Assumes a 6 percent average annualized return on a portfolio of 60% stocks and 40% bonds, and that Medicare Part B is funded by Social Security benefits.*

Note that the woman lives three years longer than the man, and is two years younger, meaning she outlives her husband by five years. Their annual health care premium costs in retirement are very similar; the difference in health insurance premiums costs comes from the woman's additional longevity. (See "Plan for the spouse's end-of-life costs" below for more on this dynamic.)

Also note that, while the woman's lifetime insurance costs are nearly $200,000 higher, she can fund that amount by investing just $5,000 more today, assuming an investment in a balanced portfolio of 60% stocks and 40% bonds with an average annual return of 6%.

These results underscore the value advisors can provide by tackling retirement planning early with couples. The notable lifetime cost increases women face compared to men can be offset more easily with early planning for investments and insurance products. Advisors can sharpen the efficacy of these plans by using reliable, personalized actuarial health care cost projections.

Start Social Security optimization planning today (with a focus on survivor benefits)

Early planning can also make a difference when it comes to Social Security—the largest source of income for U.S. retirees.[6] Social Security is designed to replace 40% of pre-retirement earnings, and benefits never expire; they last as long as the client does. As a result, women on average collect more years of benefits than men do, making it even more critical that they maximize those benefits.

Social Security's benefit calculations are based on a complex formula that tracks past earnings. Women tend to have lower earnings over their lifetimes, for the following reasons:

Women tend to permanently stop, temporarily stop or slow down on work while they raise children—and do so at a higher rate than men do.[7]

On average, women make less money than men when they do work.[8]

These factors contribute to lower Social Security benefits for women overall: Lower earnings produce a lower primary insurance amount (PIA), which is the starting point for all Social Security benefit calculations.

Advisors should encourage couples to choose filing strategies that maximize household income, rather than looking at each spouse separately. The likelihood that many women will outlive their husbands makes this approach particularly important. For instance, a man who claims Social Security at age 70 could provide his spouse with a survivor benefit that is roughly 50% larger than if he had claimed at age 62. That increase can make a substantial difference in his wife's income if he passes away first.

Consider the case of Paul and Judy, a married couple aged 60 and 58, respectively. Paul's life expectancy is 84, while Judy's is 89. Their five-year longevity differential plus the two-year age gap amounts to a projected seven-year survivorship period for Judy.

Paul worked full-time for his entire career, consistently earning a nice living and achieving a primary insurance amount (PIA) of $2,800 per month from Social Security. Judy also worked, but in taking time off to raise their three children, her career earnings are lower than Paul's, and her PIA is $1,500.

Social Security survivor benefit rules state that a beneficiary may, in the event of a spouse's death, stop their own benefit and switch to a larger survivor benefit based on what the deceased was earning at the time of their death. Because Paul's PIA is higher, Judy can expect to receive such a benefit starting at age 83.

The amount that Judy can collect during her seven-year survivorship will vary largely based on when Paul originally filed for his retirement benefits. If Paul files as early as age 62, his monthly benefit is permanently reduced from $2,800, and Judy will end up with a smaller amount in survivor benefits. If he files as late as age 70, his benefit will be greater than $2,800, and her survivor benefit would be greater as well.

Table C: Judy's Social Security Benefit Projection (2045-2051)

	Year 1 Survivor Benefit	Lifetime Survivor Benefit
If Paul Files at 62	$52,660	$398,648
If Paul Files at 70	$79,149	$599,180
Difference	**$26,489**	**$200,532**

Future-value benefit projections include considerations for Social Security's "82.5% Rule" for survivor benefits and assumes a 2.6% annual COLA.

In addition, more general Social Security optimization strategies may be advantageous for couples to employ as well:

retirement age

~~65~~ **67**

Delay retirement age to increase PIA

filing age

~~62~~ **64**

Delay filing age to maximize monthly benefits

Consider potential benefits from former spouses

Collect on behalf of eligible dependent children

Plan for men's end-of-life costs and women's remaining survivorship income

As we've discussed, the demographics of opposite-sex American marriages mean that many women face a longevity gap: a period after their husband dies in which they must cover their expenses single-handedly. The women's longevity gap alone can present financial challenges. And these challenges are exacerbated by men's end-of-life healthcare expenses, which can strain a couple's assets and leave women underfunded for their own final years.

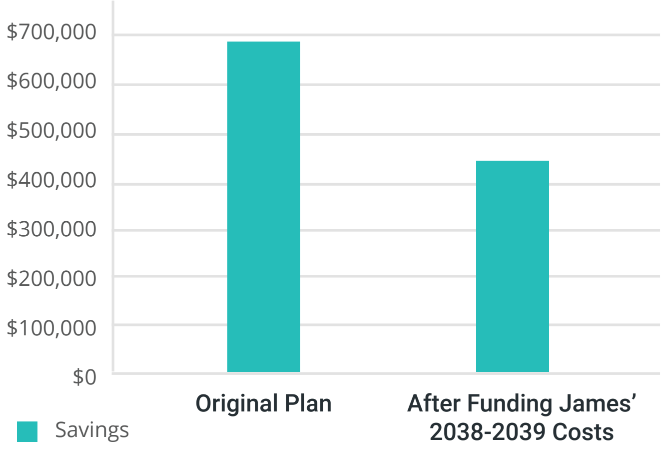
To illustrate this dynamic, consider a married couple earning a combined $144,000 in 2020, who each plan to retire in seven years. Using HealthView Services' actuarial data, we know that James, 58, a diabetic, has a life expectancy of 77. Sara, 56, who has high blood pressure, has a life expectancy of 87. This two-year age differential plus 10-year life expectancy variance means Sara is expected to outlive James by 12 years.[10]

Thanks to their good habits, the couple has $625,000 in retirement savings now, and plan to contribute $20,000 more per year until they retire. They expect to receive roughly $62,000 in Social Security in their first year of retirement. To replace 80% of their combined pre-retirement income of $177,000 (a typical income replacement ratio, or IRR), they'll need to withdraw around $80,000 from their retirement savings that year. In this scenario, the news is good: Their retirement savings are likely sufficient to fund both through their whole life expectancies, including Sara's 12 years of survivorship (even accounting for a slight growth in income needs to keep up with the cost of living).

But consider how the picture changes when James' additional health expenses in his final two years of life are taken into account. James will face more than $32,000 in end-of-life costs—additional out-of-pocket expenses relating to hospitalization, doctor visits, tests, and prescriptions. Even someone with long-term care insurance would have to consider these expenses, which are not associated with long-term care needs.

Long-term care relates to facility-based expenses once James can no longer live on his own. If he requires two years of assisted living care near their Tucson, Arizona home, they are forced to spend about a quarter of their savings to cover the $182,000 cost of long-term care, plus the $32,000 in end-of-life costs from 2038-2039. The consequences for Sara are stark: If she maintains her standard of living after James' death (by reducing their household income to 70% of what it was), she will run out of money at age 83—outliving her savings by more than four years. To make her savings last for her lifetime, Sara would need to cut her expected standard of living dramatically—by 31%.

Graph A: Sara's Savings Projection Scenarios as a Widow, 2040

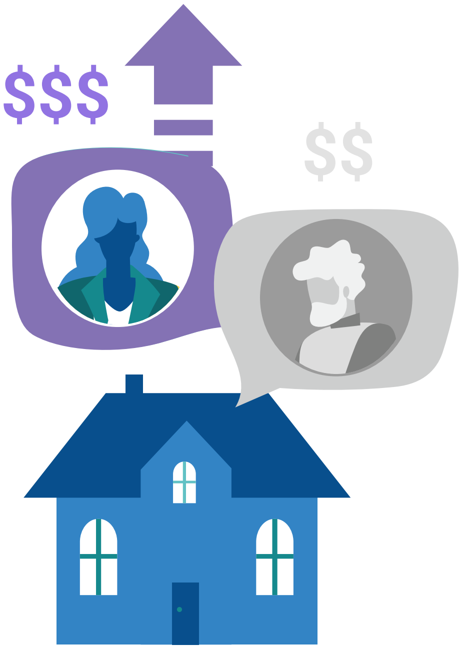


$690,594 $452,662

However, Sara doesn't have to wait to address that situation until she is in her 80s and grieving the loss of her husband. James and Sara's advisor can help them plan now to ensure their financial plan accounts for the impact, and timing, of end-of-life care. Whether they choose to buy long-term care coverage or free up additional cash to invest, the steps they take now can fill the women's longevity gap and ensure Sara can maintain her standard of living for her whole life.

Discuss finances, including Medicare surcharges, for the surviving spouse

Advisors should be frank about the implications of survivorship when working with couples. The women's longevity gap indicates that women in opposite-sex marriages should plan to fund their own expenses for at least four years after their husband's death. It's also worth noting that in 48% of couples, the longer-living spouse survives for at least 10 years after the first spouse's death.[11]



Other nuances can affect a surviving spouse's expenses at the end of life. For instance, Medicare's Income-Related Monthly Adjustment Amount (IRMAA), also known as Medicare means testing, determines the surcharges paid for Medicare Parts B and D. These surcharges vary by income and marital status. But when one spouse dies, the survivor's income threshold is reduced by 50%, despite the fact that many may only reduce their household income by 20% after the passing of a spouse. As a result, women may be pushed into higher surcharge brackets, potentially resulting in tens of thousands of dollars of additional costs.

Consider the case of Maria, a 50-year-old woman in good health.[12] Her husband, Anthony, also 50, has some chronic health concerns. As they plan their retirement, Maria expects to experience about 10 years of survivorship, with an actuarial life expectancy of 89. Projections based on their current household income of $180,000 and a retirement income replacement ratio (IRR) of 75% indicate that Maria and Anthony will avoid IRMAA surcharges.

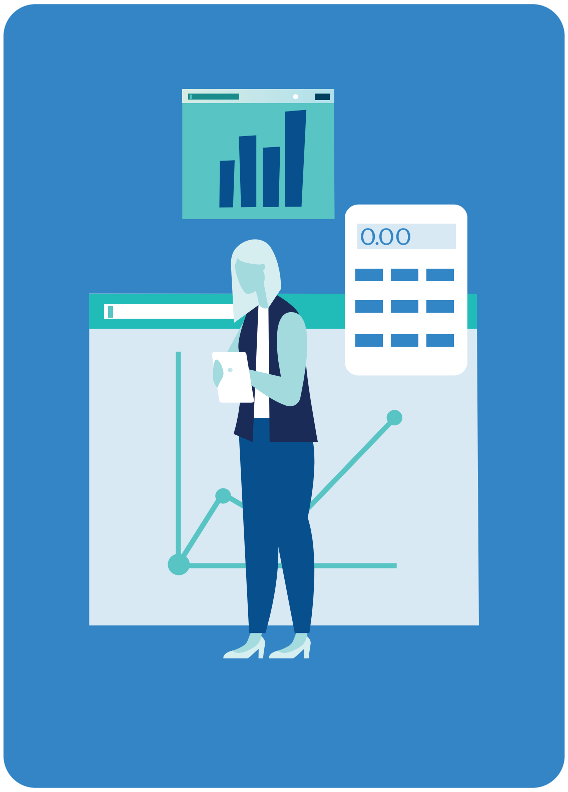
However, imagine Maria is 80, and Anthony has died, so Maria's income are now tested as a single person. Since Maria faces many of the same expenses she did before Anthony's death, including housing and utilities, her income dropped by just one-fifth. As a result, she is now in the third of six IRMAA income brackets. Each year for the rest of her life, she'll pay an average of $11,000 in IRMAA surcharges—a 71% increase on her premiums for Medicare Parts B and D. (See appendix for IRMAA income brackets for 2020 and 2050.)

Each year for the rest of her life, Maria will pay an average of **$11,000** in IRMAA surcharges—a 71% increase on her premiums for Medicare Parts B and D.

Even if her expenses diminish significantly, her income must be considered. In particular, beginning at age 72, minimum required distributions begin, which count as modified adjusted gross income (MAGI) and could potentially increase her means testing exposure.

A financial advisor could address this challenge well before it comes up, with the understanding that Medicare measures one's means by MAGI. Maria and Anthony's advisor can recommend retirement income sources, such as Roth IRAs, health savings accounts, life insurance or non-qualified annuities, that wholly or partly do not count as MAGI—helping Maria to mitigate or entirely avoid these costly surcharges.

Plan for long-term care based on expected length of stay by gender



Planning adequately—and realistically—means being willing to discuss challenging topics, including the details of how various health conditions typically impact longevity. Likewise, advisors can provide value by comprehensively assessing potential end-of-life costs, then helping women and their families make a plan to address them.

There's no getting around the fact that these dynamics may make for uncomfortable client conversations. However, advisors who are willing to embrace these difficult truths can provide clients with the kind of valuable guidance that leads to enduring relationships.

For instance, advisors should help clients plan for long-term care costs, which are high—and growing. In 20 years, a year of nursing home care is expected to cost $175,000, while a year of assisted living would run $100,000.[13]

Table D: National Average Long-Term Care Costs

	Home Health Care*	Assisted Living	Skilled Nursing
Cost in 2020	$54,765	$54,086	$97,974
Cost in 2040	$98,911	$97,685	$176,952
Increase	$44,146	$43,599	$78,978

** Home Health Care assumes 44 hours per week of care.*

This consideration is crucial for women, who, on average, spend about two-and-a-half years in long-term care facilities at end of life. That's a full year longer than the average man, which results in women facing much higher long-term care costs over their lifetimes.

Advisors can help women and their families plan now for these expenses. For instance, women may earmark a portion of their investment portfolio to cover long-term care (LTC) costs. Or they may decide to invest in long-term care insurance or an LTC rider on a life insurance policy. Bear in mind, of course, that there is a sweet spot—often in the early 50s—for investing in LTC coverage, which becomes more expensive the later one purchases it. Even for those who choose to forgo coverage and self-insure, the required lump-sum investment for a 50-year-old (who ideally wouldn't need to withdraw those earmarked savings for 30 or 40 years) is relatively small.

These strategies can help women better prepare for the reality of their long-term care needs. Advisors who help women plan for these eventualities can provide peace of mind, while also mitigating the risk that women will need to drain their assets to pay for end-of-life care.

Addressing the women's longevity gap

Women's longevity gap is a major challenge for many clients—even though they may not know it exists. Advisors can strengthen client relationships by identifying the exact nature of the problem, then identifying strategies, such as optimized product mix, to address to address it well ahead of time. Using personalized data and actuarial longevity figures, advisors can give clients a clearer understanding of their expected health care costs and help them put plans in place to cover those costs.

These strategies are:

- Make financial plans based on actuarial longevity
- Address retirement health care costs today
- Start Social Security optimization planning today (with a focus on survivor benefits)
- Plan for men's end-of-life costs and women's remaining survivorship income
- Discuss finances, including Medicare surcharges, for the surviving spouse
- Plan for long-term care based on expected length of stay by gender

Ultimately, preparing for these potential roadblocks as early in the planning process as possible is an ideal solution. With additional time and flexibility, women (and their spouses) may have a more reliable path to retirement prosperity. Advisors empowered with this information can help ease client concerns and help ensure their savings last through retirement – including the added longevity for women.

Appendix

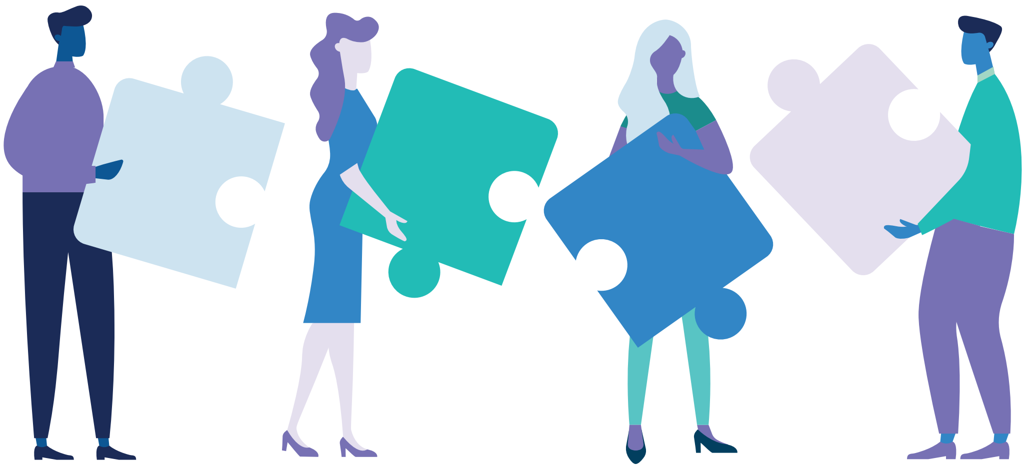
2020 IRMAA Brackets

Individuals	Couples	% Change in Cost
<$87,000	<$174,000	--
$87,001-$109,000	$174,001-$218,000	37%
$109,001-$136,000	$218,001-$272,000	93%
$136,001-$163,000	$272,001-$326,000	149%
$163,001-$500,000	$326,001-$750,000	204%
$500,001+	$750,000+	222%

2050 IRMAA Brackets*

Individuals	Couples	% Change in Cost
<$196,000	<$392,000	--
$196,001-$254,000	$392,001-$508,000	37%
$254,001-$313,000	$508,001-$626,000	93%
$313,001-$373,000	$626,001-$746,000	149%
$373,001-$978,000	$746,001-$1,467,000	204%
$978,001+	$1,467,001+	222%

** Assumes that IRMAA brackets grow by CPI-U as projected by the U.S. Bureau of Labor Statistics.*



About HealthView

Founded in 2008 by a team of financial professionals, healthcare industry executives, and physicians, HealthView Services is the nation's leading provider of healthcare cost projection software. It's portfolio of retirement healthcare planning applications – which create comprehensive and reliable cost projections for 33 million users annually – is utilized by advisors, financial institutions, employees and consumers.

Drawing on actuarial and government data, as well as 530 million medical claims, these applications rely on a patented data process that utilize simple user inputs (age, gender, health conditions, income, and location) to create personalized estimates of retirement healthcare costs. The data also incorporates inflation projections for each component of retirement healthcare: Medicare premiums, supplemental insurance, and out-of-pocket spending for dental, vision, and hearing.

With more than a decade of use across the financial services industry, these solutions have proven to be a powerful driver of savings and retirement planning. The firm has numerous software applications which include healthcare cost projections, long-term care costs, Medicare premiums and surcharges, Social Security optimization, etc. These tools give financial services' clients and retirement plan participants with an individualized and actionable savings plan aimed at funding a customized expense projection.

HealthView also offers product training, professional speaking, and custom content creation services. The firm regularly publishes white papers on several industry topics, as well as its annual retirement healthcare costs projection update.

Footnotes

1 https://www.thebalance.com/what-is-the-average-age-of-marriage-in-the-u-s-4685727

2 HealthView Services actuarial data.

3 “How do advisers estimate a client’s longevity?” Investment News, July 18, 2019.

4 “Life span has little to do with genes, analysis of large ancestry database shows,” Statnews.com, Nov. 6, 2018.

5 “Financial insecurity is a major concern for women approaching retirement,” National Council on Aging, June 18, 2019.

6 Social Security Fact Sheet, Social Security Administration, 2019.

7 “Women more than men adjust their careers for family life,” Pew Research Center, Oct. 1, 2015.

8 “The Simple Truth about the Gender Pay Gap,” AAUW, Fall 2019.

9 “Annual Statistical Supplement, 2019,” Table 6.B5.1, Social Security Administration.

10 Dollar amounts in this case are shown in the future value, when applicable. Assumes a 6% annual rate of return on their assets, and expenses that grow by 2% annually.

11 https://nationwidefinancial.com/media/pdf/NFM-18198AO.pdf

12 Assumes that Maria and Anthony live in Connecticut, and that their income grows 3% annually both before and in retirement. Also assumes that IRMAA brackets grow by CPI-U as projected by the U.S. Bureau of Labor Statistics. All amounts except current income are in future dollars.

13 HealthView Services data