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Are your female clients facing a retirement readiness gap?

Americans are not prepared for retirement – and it's no secret that women face greater financial challenges in retirement than their male counterparts. Generally, women earn less than men, are more likely to work fewer years or part-time due to caregiving roles, have more years in retirement and are more likely to need long-term care services because of longer life expectancy. A recent study indicates that retirement readiness for single women is at the greatest risk. The Employee Benefit Research Institute (EBRI) has been studying Americans' retirement readiness since 2003. For 2019 they've identified some surprising statistics:

40% of US households where the head of the household is between 35-64, are projected to run short of money in retirement.[1]

The average retirement shortfall for widowers is $18,476 while the shortfall for widows is $22,783.[2]

The average retirement shortfall for single men is $37,690 while the shortfall for single women is almost double at $72,883.[2]

Single women are the only group where at least 50% have a retirement deficit.

13% of single women have a significant retirement shortfall versus 7% for single men, 4% of widows, and 3% of widowers.

In addition, an earlier EBRI survey noted that many U.S. workers are not confident in their ability to pay for medical or long-term care expenses. This data is not surprising, as these costs have been rising steadily. Fidelity, which has been tracking retiree health care costs for more than a decade, recently estimated the lifetime out-of-pocket costs for a 65-year-old couple retiring in 2018 at $280,000. This does not include the cost of long-term care.[3]

While the facts are quite disconcerting, surveys also indicate that those who take the time to plan are wealthier and happier in retirement. As such, the power of planning cannot be overstated when it comes to saving for retirement. The silver lining to this news is that life insurance carriers have been responding with new, creative features and riders that provide living benefits in addition to death benefit. For example, there is a greater focus on long-term care and chronic illness riders that address the need for funds to pay health care expenses, and even riders that accelerate the death benefit to provide a stream of income.

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The good news is that life insurance can be a tool to address the retirement gap. Following are three life insurance techniques that can be used to address the gap:

LIRP (Life Insurance Retirement Plan) A personally owned life insurance policy typically structured as maximum non-MEC premium. They are typically most appropriate for high income individuals who have already contributed to qualified retirement accounts.

SLAT (Spousal Lifetime Access Trust) A lifetime irrevocable trust established by one spouse (the donor spouse) for the benefit of the other spouse (beneficiary spouse) and children (and possibly grandchildren). The trust document is written to allow for distributions to the beneficiary spouse which arguably allows the donor spouse to indirectly benefit from the trust assets. It can function as a life insurance trust and acquire a single life policy on the donor's life or survivorship policy on both spouses.

Standby Survivorship Trust This arrangement utilizes an ownership and beneficiary structure on a survivorship policy on the lives of a married couple. The insured with the shorter life expectancy is named the initial owner of the life insurance policy and premium payer. At the time the insurance is purchased, a trust (i.e., the Standby Trust) is also established as either an existing stand-alone (revocable or irrevocable) trust or as a testamentary trust and is named the contingent owner and primary beneficiary. Arrangement permits the policy owner spouse access to policy cash values during his/her life and the trust permits distribution to the surviving spouse during his/her remaining lifetime.

How Can DBS Help?
To learn more, contact your dedicated DBS Case Design Associate.

[1] Employee Benefit Research Institute study March 7, 2019, Retirement Savings Shortfalls: Evidence From EBRI's 2019 Retirement Security Projection Model, www.ebri.org/retirement/publications/issue-briefs/contnet/retirement.
[2] Employee Benefit Research Institute study January 17, 2019, How Retirement Readiness Varies by Gender and Family Status: A Retirement Savings Shortfall Assessment of Gen Xers, www.ebri.org/publications/research-publications/issue-briefs/contnet/retirement.
[3]Fidelity Retiree Health Care Cost Estimate study April 18, 2018, www.fidelity.com/viewpoints/ personal-finance/plan-for-rising-health-care-cost. Estimate is based on a hypothetical couple retiring in 2018, 65-years-old with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-16. Estimate is net of taxes; cost basis is assumed to equal market value. Estimate is calculated as the assets required today in a taxable account with an effective tax in retirement of 5%, an asset allocation of 30% equity, 50% bond, and 20% cash such that there is a 90% chance of being able to pay for health care expenses through life expectancy. The estimate assumes the individuals have Medicare, but need to pay the cost-sharing provisions such as deductibles and co-insurance amounts. It does not include other health care costs such as dental or long-term care.

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