



Citi Education Series
on Family Economic Security



When Retirement's Approaching: What Women Over 50 Need to Know About Social Security and Retirement Income

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Speakers for this Session



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Women need more resources to ensure a secure retirement....

- Women live longer than men; in 2005, the life expectancy for U.S. women was 80.4 years; men's life expectancy was 75.2 years.
- It's been estimated that on average women need to save 2 percent more than men per year – **over 30 years** – to achieve the same standard of living in retirement.



But it's more difficult for working women to put money away for retirement....

- Women earn **78%** of what men earn and work fewer years than men.
- Working women are more likely to work fewer hours, work part-time, and leave the workforce for longer periods of time than men.
- Life events such as divorce can have severe economic consequences for women – more than for men.
- As a result, women on average earn lower Social Security benefits in their own right and accrue smaller pensions than men.



As a result....

- In 2006, on average, women age 65 and older received less than half of the pension income received by men (approximately \$3,000 vs. almost \$7,500).
- Women age 65 and older are more likely to be poor than men of the same age. In 2007, 11.5% of elderly women were poor, compared to 6.6% of elderly men.



Fortunately....

There are steps working women can take as they approach the end of their careers to move closer to the goal of a secure retirement.

The first step is to get the facts about Social Security and retirement savings!



Ten Things You Should Know About Social Security

Joan Entmacher



1. Why does Social Security have a special place in your retirement plan?

- Main source of retirement income: more than half the income of two out of three people 65 and older
- Predictable, unaffected by ups & downs of stock market
- Benefits for as long as you live
- Annual cost-of-living adjustments
- Supplementary spousal benefits
- Plus: Disability and survivor benefits for families



2. How do you qualify for Social Security as a retired worker?

- Earn 40 “credits” (10 years worth)
- This year, \$1,050 = 1 credit, \$4,200 = 4 credits
- Earning more raises your benefit but you can only earn 4 credits per year
- Work in a job covered by Social Security
- Special rules apply if you also get a pension from a job not covered by Social Security (eg, some public employees).



3. How does Social Security calculate your benefit as a worker?

- Highest 35 years of wages
- Adjusted for change in average wages
- Progressive formula
 - Lower earners get a higher percentage of pre-retirement income
 - Higher earners receive larger benefits than lower earners
- Can get credit for earnings beyond retirement age
 - Can replace zero or low earning years



4. How can you find out your estimated benefit?

- Read your annual statement from Social Security
- Go online to www.ssa.gov



5. How does your age when you claim benefits affect the benefits you get as a worker?

Year of Birth	Full Retirement Age	Percentage of reduction in benefits for those retiring at 62	Percentage increase in benefits for those working beyond full retirement age
1937 or earlier	65	20.00%	6.5%
1938	65 and 2 months	20.83	6.5
1939	65 and 4 months	21.67	7.0
1940	65 and 6 months	22.50	7.0
1941	65 and 8 months	23.33	7.5
1942	65 and 10 months	24.17	7.5
1943 to 1954	66	25.00	8.0
1955	66 and 2 months	25.84	8.0
1956	66 and 4 months	26.66	8.0
1957	66 and 6 months	27.50	8.0
1958	66 and 8 months	28.33	8.0
1959	66 and 10 months	29.17	8.0
1960 and later	67	30.00	8.0

SOURCE: SOCIAL SECURITY ADMINISTRATION



- Example: You were born between 1943 and 1954. Your FRA is 66.
 - Age 66 benefit = \$1,000/month
- If you claim 4 years early, at age 62: \$750 (- 25%)
- **The reduction does not go away when you reach 66.**
- If you wait 2 years and claim at 68: \$1,160 (+8% for 2 years = +16%)



6. What should you think about when deciding when to apply for Social Security?

- On average, the lower monthly benefit a person gets by claiming early is balanced by the extra months of benefits

BUT....



- If you live longer than average, you get more over your lifetime by waiting.
- You may need the higher income more when you're older.
- All benefits are adjusted for inflation. But if the starting amount is higher, you'll get higher dollar adjustments each year, and the difference compounds.
- If you're eligible for a benefit as a spouse or a widow, or your spouse might get such a benefit from you, there's more to think about.



7. What if you continue to work after you claim benefits?

- Part of your benefits will be suspended if you have earnings above a certain level while you are below your FRA. For years before the year in which you reach FRA, \$1 in benefits will be withheld for each \$2 you earn above the annual limit (\$13,560 in 2008).
- For months before your birthday in the year you reach your FRA, \$1 in benefits will be withheld for each \$3 you earn above a different limit (\$36,120).
- Withheld benefits are repaid when you reach your FRA.
- Social Security benefits are recalculated to take account of additional earnings.



8. What benefit can you get as a spouse?

- If your spouse is the higher earner, up to 50% of your spouse's benefit or your own worker benefit, whichever is higher. You must be:
 - Age 62.
 - Married (and not disqualified by the Defense of Marriage Act)



- You cannot claim benefits as a spouse until your higher-earning spouse claims worker benefits.
 - You can claim your own worker benefit at any time.
 - If you are eligible for both, you must take them both at the same time. When your spouse files for benefits, you'll get the spouse benefit if it is higher.
 - But you won't get the full 50% if you filed before your FRA.
 - Your higher-earning spouse can file for benefits at FRA and suspend them. You can then receive a spouse benefit while your higher-earning spouse earns delayed retirement credits. This increases the benefit you can get as a widow(er).



9. What benefits are you entitled to as a widow(er)?

- Up to 100% of your deceased spouse's benefit or your own worker benefit, whichever is higher.
- You can claim benefits as a widow(er) at age 60, or age 50 if you are disabled. Claiming early can reduce the widow(er)'s benefit.



- You can choose whether to take your widow's or worker's benefit first.
- If your higher-earning spouse claims benefits before FRA, your widow's benefit is reduced.
- **By waiting to claim benefits until FRA or beyond, a higher-earning spouse can provide a larger Social Security benefit for the surviving spouse.**



10. What if you are divorced?

- If your marriage lasted for 10 years, you get the same benefits as a current spouse or widow.
- You don't have to do anything when you get divorced, just bring documentation of the marriage and divorce when you apply for Social Security.
- Your receiving benefits as a divorced spouse won't affect benefits for your ex-spouse or the ex's current spouse.
- Unlike someone who is currently married, you don't have to wait for your ex-husband to apply to receive a benefit as a divorced spouse. You can get benefits if you are both at least age 62, and have been divorced for at least 2 years.



Resources

- Social Security Administration for women: www.ssa.gov/women
- Administration on Aging: www.aoa.gov
- Medicare: www.Medicare.gov
- Centers for Medicare & Medicaid Services: www.cms.hhs.gov



Cindy Hounsell, WISER

- Cindy Hounsell is the President of *WISER*, the Women's Institute for a Secure Retirement, a nonprofit organization that seeks to improve the opportunities for women to secure retirement income and to educate the public about the inequities that disadvantage women in retirement.
- Ms. Hounsell, an attorney, has testified before Congress, served as a delegate for a number of White House Summits and conferences including two White House Conferences on Aging, the White House Social Security Conference and three National Retirement Saver Summits.
- Ms. Hounsell provides technical assistance to several national organizations as well as training to leaders and grassroots advocates around the country as part of her role as director of the National Resource Center on Women and Retirement Planning, funded by the Administration on Aging.



Three Sources of Retirement Income

Where does it come from?

- Social Security benefits-most important.
- Employer-sponsored retirement benefits.
- Your individual savings and assets.
 - Personal savings has become an important source of income as the risks of retirement have shifted to the individual.



Workers are now responsible for investing.

- Most workers lack basic financial knowledge.
- First step is to figure out how much you have for retirement.
- Don't freak out – think long term.
- Review your Social Security statement and use a retirement calculator.

www.wiserwomen.org

www.socialsecurity.gov



Sources of Retirement Income

Employer sponsored savings plans

Defined Contribution Plans – save through payroll deductions in a 401(k), 403(b), or 457 plans.

- Especially important if employers match a portion of the employee's contribution.
- Important to keep the money for retirement.
- Important to know the rules –when you are “vested” so you do not lose any contributions.



Retirement Plans Basics— 401(k) and 403(b) Questions

Can I withdraw money from my account while I'm still working?

Yes. If your plan does not have a loan provision, you may be able to qualify for a severe financial hardship withdrawal. According to the IRS a hardship withdrawal includes the following:

- College tuition for you or your dependents
- A down payment on a primary residence
- Non-reimbursed medical expenses
- Preventing eviction or foreclosure from your home
- Funeral and burials expenses and repair of a primary home



Retirement Plans Basics— 401(k) and 403(b) Questions

What happens if I need the money?

- Learn the rules. Difference between borrowing and withdrawing.
- Check your plan documents and ask the plan administrator.
- If you borrow create a plan to repay your 401(k) loan to avoid taxes and fees.
- If you withdraw from your 401(k), you are likely to face tax penalties.
- Remember you lock in your loss if you borrow or withdraw today.



Retirement Plans Basics—401(k) and 403(b) Questions

Can I stop contributing if I can no longer afford it?

- Most retirement plans allow you to reduce or to stop contributing but some require waiting until the plan year begins.

Some plans may require specific percentage contribution for a full plan year so be sure to check your plan rules.



Sources of Retirement Savings

Personal Savings

- Individual Retirement Accounts (IRAs)

Traditional IRA: contributions may or may not be tax-deductible. Later the money is taxable as income. (IRS #590)

Roth IRA: contributions are not tax deductible. Later the money is tax-free.



Traditional or Classic Individual Retirement Accounts

- For 2008, you can contribute **up to** \$5,000 annually – or \$6,000 if you are over age 50.
- You contribute before-tax money, and pay taxes when you take the money out.
- You may pay a penalty if you take the money out before age 59½.
- You can open an IRA fund at a bank, mutual fund company, brokerage firm or a credit union.



Roth IRA- already taxed income

- In 2008, if you are eligible, you can contribute **up to** \$5,000 earned income annually – or \$6,000 if you are over age 50. You contribute already-taxed income.
- You will not pay taxes when you withdraw your funds – no tax on earnings after you reach age 59½.
- Income limits determine eligibility:
 - In 2008, single filers with an Adjusted Gross Income between \$101,000 and \$116,000 and married taxpayers with an AGI between \$159,000 - \$169,000, can each contribute the full amount.



IRAs.....

Changing jobs or retiring:

- Many workers use IRAs to roll over the assets from their 401(k) plan.
- Roth IRAs are an important way to accumulate more retirement savings because of the tax treatment.
- Roth IRA does not require a minimum distribution at age 70½.



I Bonds

- I Bonds are based on inflation.
- The rates change every 6 months.
- You buy I Bonds at face value. For example, you pay \$50 for a \$50 bond.
- Keep them up to 30 years. Cash them out after 5 years without losing interest earned.
- You can get more information or buy bonds online at www.savingsbonds.gov.



Big Decisions: How to make the money last?

When and How: tricky decisions and based on individual choices.

- You can lock in a regular monthly payment for life or take a lump sum payment and manage it on your own.
- Or a combination of these two methods,



Ways to take the money from an IRA.

- Leave the money until you need it and then take systematic withdrawals.
- Buy an annuity with all or part of the money.
- Cash out some or all of the IRA and spend and/or manage it yourself.
- General rule is that you can take 3-4 % a year depending when you start.



Federal Savers Tax Credit

- The Credit is available to eligible individuals who save for retirement.
- It is effectively a federal match for retirement contributions.
- The amount of this credit will not change the amount of refundable credits such as the earned income tax credit or the child tax credit.



Who can claim the credit?

You can claim :

- If your adjusted gross income is not more than \$26,500 if you are single, married filing separately or a qualifying widow;
- If your adjusted gross income is not more than \$39,750 if you are filing as head of household;
- If your adjusted gross income is not more than \$53,000 if married and filing jointly.



How does the credit work?

- This is a non-refundable credit. If you do not owe taxes, then you will not be eligible.
- The amount depends on your income and IRS filing status; the lower your income, the greater the credit rate you are eligible for.
- If eligible, the maximum credit is 50% of your contribution to a retirement plan up to a maximum of a \$2,000 retirement contribution (or \$1,000 tax credit).



Impact of Divorce

Divorce and retirement plans:

- Share of spouse's pension **MUST** be awarded at time of divorce – not when spouse retires.
- QDRO - special court order - is required to receive the pension – works like the ticket to get into the movies – no ticket no movie. No QDRO, no pension.
- Survivor's benefits are important and must be mentioned separately in divorce agreement.



Impact of Widowhood

The financial consequences are serious.

- Women live longer and will experience a large drop in income.
- Women do not realize the importance of the basics -- such as knowing that a widow only receives one Social Security benefit after a spouse dies.
- If eligible for a spouse's pension benefit it may be reduced by as much as 50%.



What Women Can Do

- Make retirement planning a priority.
- Take it as a step-by-step approach.
- If possible, women need to save more and work longer.
- Not being prepared means taking the risk of running out of money in old age.
- Make the calculation to find out what their income gap will be and what they will need.
- Learn as much as they can about benefits from their jobs and their spouses benefits.



Retirement Planning: In Your 50's

- If you haven't started saving now is the time to make a plan and get on track.
- Key is knowing how you are going to live over the next three decades. Think what will that cost?
- Review how your money is invested and again use the calculators that are available.

www.wiserwomen.org



Biggest Mistakes!


1. Not making time for money issues. Start Today!
2. Not getting involved in managing their finances or the family finances. (Paying bills doesn't count.)
3. Not estimating how much money they will need for the future – retirement.
4. Not getting information or advice soon enough to make the best decisions.

Citi Education Series on Family Economic Security



Add Up Your Sources of Retirement Income

The table below will help you identify all your sources of retirement income. It also will help you estimate what benefits will be available for as long as you live, for your spouse as a widow or widower, and whether it will keep up with inflation.

Source of income	Monthly	Can you count on getting the income amount for life?	Will the income keep up with inflation?	Can some or all of the income continue to your surviving spouse?
A. Social Security	\$ _____	Yes	Yes	Yes, offset by other Social Security benefits payable to the survivor
B. Employer pension – If paid as monthly income	\$ _____	Yes	Private plans usually do not. Public employee plans often will. What is your plan's track record?	Yes, if you use a joint and survivor form
C. Employer savings plan account (401-k) – If paid as guaranteed monthly income	\$ _____* * Enter the estimated annuity income these funds could buy.	Yes	Not usually. Amount is fixed unless you use a variable or indexed annuity.	Yes, if you use a joint and survivor form
D. Employer pension or savings plan account – If paid in a lump sum that's rolled over to an IRA and Invested	\$ _____* * Enter the estimated annuity income these funds could buy.	Some risk of running out of money, depending on how well you manage investments and spending	Depends on performance of your investments and the economy while you're retired	Depends on how well you manage investments and spending during your lifetime
E. Part-time work	\$ _____	No. In later years you're unlikely to find a suitable job that you can perform.	Probably, as long as you keep working	No 
Total from all sources	Amount	How to Calculate Total Amount		
Initial income	\$ _____	Add A, B, C, D, and E		
Income you can count on for life	\$ _____	Add A, B, and C		
Income that can keep up with inflation	\$ _____	Add A and E, maybe B, C, D		



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WISER Resources

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- WISERWoman, sign up for a quarterly newsletter

Booklets:

- *Don't Run with Your Retirement Money*
- *Financial Steps for Caregivers*
- *7 Life Defining Decisions*
- *Making Your Money Last for a Lifetime*
- *What Everyone Needs to Know about Money and Retirement.*



For a copy of today's materials....

- Stay tuned! We will send you an email by Friday with a link to this power point and a voice recording of today's presentation.
- For a copy of the materials from our September 10 webinar, **Planning for the Future: What Working Women Need to Know About Social Security and Retirement Savings**, please visit www.nwlc.org/educationseries/downloads.html#planning.