

Longer Lives, Lower Pay Make This Transition Critical for Women

A Woman's Guide to Retirement

by Alexandra Armstrong, CFP, CRPC



Usually this column is a joint effort of Alexandra Armstrong and Christopher Rivers. This column and next month's are written by Alexandra Armstrong.

In 1993, Mary R. Donahue, PhD., and I wrote “On Your Own, A Widow's Passage to Emotional and Financial Well-being.” Recently, we finished writing “Your Next Chapter: A Woman's Guide To A Successful Retirement” about another of life's transitions — retirement — from a woman's point of view. This book focuses on the period immediately prior to retirement and the first year after retirement. The content is based on our professional work with women as well as our own personal experiences.

Just as widowhood encompasses interrelated financial and emotional concerns, retirement involves both aspects as well. Therefore, in “Your Next Chapter” we're offering practical advice to women on how to achieve a successful retirement. In this article and next month's, I'll provide you with some highlights from this book.

Why is it necessary to write a book about retirement aimed at women? Don't they face the same issues that men do? Yes, they do, but we believe women also face some unique obstacles and circumstances that can significantly affect their quality of life in retirement.

Let us start with three important financial issues women face when they're planning for retirement.

■ **1. Statistically women live longer than men.** According to the National Center for Health Statistics, life expectancy for a man is 76.1 years and for women, it's 81.1 years. Census figures indicate that by age 75, the majority of women are single, whereas the majority of similarly aged men have a spouse, even into their 90s. Therefore, a woman's retirement funds need to last longer than a man's savings. In addition, it's likely there will be a time when she'll have to handle her finances by herself.

■ **2. Generally, women who worked have earned less than men over their professional lives, often because they've spent fewer years working.** Consequently, women may not be eligible for as much Social Security income. In addition, a woman may not have accumulated as much in retirement funds. Initially, this may not be a problem if a woman is married and her partner has enough income, but her situation may change if her partner predeceases her.

■ **3. Finally, if she was managing her home and her family as well as a job, she may have paid the household bills, but wasn't involved in making investment decisions.** Therefore, she has

less experience managing investments. (Obviously this isn't true of *BetterInvesting* readers but is true of many others.)

Working women often experience mixed emotions when they get ready to retire. They may not have realized how much of their identity, status, daily social connections, structure and purpose were tied to their work. Some, like their male counterparts, may have worked most of their lives and derived much satisfaction from their careers. Others may have interrupted their careers to stay at home with young children but then returned to the workforce. In both cases, these women may be reluctant to retire at a traditional retirement age. It sounds good in theory, but when faced with the actual event, they may find replacing status, social network, structure, purpose and challenge difficult.

The woman who hasn't been working outside of the home and has been able to carve out a life focused on her interests has a different set of problems. She now has to adjust to her partner being home on a full-time basis, which changes her routine. For most women, retirement is not just a dollars and cents issue, but rather a time to look at the meaning and quality of life they'll experience in this next chapter of their lives.

STAGE 1: GETTING READY TO RETIRE

How to Plan to Retire?

At this point in your life, although you may be experiencing considerable emotional turmoil, the first step is to assess your current financial situation. If you don't have a financial adviser, this is a good time to find one who can help you make the many decisions you need to make now and in the future. Even if you previously managed your financial affairs by yourself, as you age, you'll find the assistance of an objective and experienced financial planner to be invaluable. (See our April and May 2020 articles regarding selecting and working with a financial planner.)

In this financial planning stage, your adviser will help you figure out what your retirement scenario looks like. What do you own and what do you owe? What income can you expect to receive when you retire and what do you think your expenses might be? You'll have predictable sources of income such as Social Security and less predictable ones including your retirement funds (individual retirement accounts, a 401(k), etc.). If you haven't signed up for Medicare yet, your adviser can help you sign up as well as evaluate various Medicare supplement

and drug insurance plans.

When looking at your financial situation, it's important to budget not only for the initial years of your retirement but also for the rest of your life. Given women's longevity, you may be retired for 30 years or longer. It is important to plan ahead so that your money lasts as long as you do!

Once you have determined whether your estimated income is sufficient to cover your projected expenses, then you can make necessary adjustments, such as deciding when to start taking Social Security. While you may have previously invested for growth of principal, now may be a good time to shift some of your investments to provide you with more current income.

Maintaining a cash reserve of three months' expenses might have been sufficient in the past. Now we recommend you build a larger one that covers at least a year of your expenses. That way if you encounter a major stock market correction, you won't have to sell investments at distressed prices.

When to Retire?

The decision about when to retire depends on many factors. The first question to ask yourself is — are you ready mentally to retire? You may have been counting the days to the time when you could stop working. Or you might really enjoy your job and are reluctant to leave that sense of purpose behind. If you're married, the timing of your retirement might coincide with that of your partner — or it might not. Women who didn't work outside the home will have to adjust to a partner being home all the time, which could put strains on your relationship.

You might have been looking forward to no longer working but an assessment of your financial situation may preclude you from doing so now. On the other hand, you may want to keep working, but health issues may prevent you from doing so. In still other cases, particularly for women,

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you may have to stop working in order to take care of a sick partner or other family member.

For many, your retirement date may be set by your employer. You'll go from working full time one day to not working at all the next day. If this is the case, you may decide you want or need a second career or to work part time. If you're self-employed, you may be able to choose when you can retire. You might be able to ease into retirement working fewer hours rather than having to deal with an abrupt change in your life. For the nonworking woman, your spouse may have this choice as well, which can make the transition easier for both of you.

Where to Retire?

Among the decisions which can contribute to the emotional stress of retiring may be the issue of where to live. Obviously housing expenses are a major part of your retirement budget. In our last book, we advised widows to wait a year before making a change of residence. If possible, the same advice is appropriate here. You're making a lot of important decisions now; it may be advisable to postpone this one for the time being.

Many choose to age in place, staying near friends and family members. But you may find that a single-family home is more than you want to handle and prefer to downsize to an apartment or to a retirement community in the same area. An apartment can be less expensive and

less effort to maintain. If your primary residence is in a cold climate, you may want to spend part of the year in a warmer climate. Or you may move to a state that doesn't tax your income. If this is your motivation, it's important to consider not only state income tax but also real estate and sales taxes. (An excellent source for this information is Kiplinger's state-by-state guide to taxes for retirees: www.kiplinger.com/links/retireetaxmap.)

You may prefer to rent a home, rather than own, or you may want to move to a recreational vehicle. Or you may even want to live outside the United States. Where one lives is usually a more emotionally charged issue for women than men. For instance, in many cases staying close to family and friends is more important to a woman than to a man. You need to take time to fully assess your options. Rash decisions are rarely productive.

Conclusion

In my next article I will explore the emotional and financial adjustments you will make during the first year of your retirement. **B**



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