Closing the Retirement Income Gender Gap

The Opportunity Is Now.

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Introduction

The retirement income gender gap is real, and the challenges facing women in achieving a secure retirement are daunting. As a plan sponsor, you can make a significant difference by improving your retirement plan design, implementing targeted engagement programs, and providing holistic education that helps female participants improve their financial wellness.

Our nation is facing a retirement crisis – one that is more acute for women than for men. Prudential research indicates that the retirement account balances of female employees are, on average, one-third lower than their male counterparts.1 Lower retirement account balances, coupled with lower average Social Security benefits and longer life expectancies, mean that women are projected to have much lower income to sustain them throughout retirement than men. Plan sponsors should find this retirement income gender gap alarming. Fortunately, plan sponsors can help close the retirement income gender gap through customized plan design, participant engagement programs, and holistic education that focuses on participants’ financial wellness – their ability to achieve the foundational elements of financial security: managing day-to-day finances, protecting against key risks, and achieving important financial goals.

Women have made significant advances over the last few decades in the workplace. They currently comprise 47 percent of the U.S. workforce, and 40 percent of working women are in managerial and professional jobs, compared to just 18 percent in 1975.2

Despite these workplace advances, women continue to face a much greater challenge than men when it comes to retiring with lifetime financial security. Women’s average earnings – both annual and lifetime – remain below the level of men’s. Lower earnings during working years have also resulted in women earning Social Security benefits that are 23 percent lower than men’s,3 which is a key contributor to the retirement income gender gap. Currently, the median annual income of women age 65 and older is 42 percent lower than men.4

The Retirement Income Gender Gap

<table>
<thead>
<tr>
<th>Job Earnings Gap</th>
<th>Social Security</th>
<th>Retirement Savings</th>
<th>Retirement Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE AVERAGE WOMAN WORKING FULL-TIME EARN 79¢ TO EVERY $1 EARNED BY HER MALE COUNTERPART.</td>
<td>LOWER EARNINGS AND LARGER CARETAKING RESPONSIBILITIES CREATE A SHORTAGE OF SOCIAL SECURITY BENEFITS.</td>
<td>COMPETING DEMANDS ON WOMEN’S TIME CAN MAKE IT CHALLENGING FOR THEM TO FOCUS ON LONG-TERM FINANCIAL PLANNING.</td>
<td>THESE FACTORS, PLUS OTHERS, INCLUDING BEING MORE LIKELY TO BE SINGLE LATER IN LIFE, RESULT IN MUCH LOWER RETIREMENT INCOME.</td>
</tr>
<tr>
<td>–21%</td>
<td>–23%</td>
<td>–32%</td>
<td>–42%</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau, U.S. Department of Health and Human Services, Social Security Administration, Prudential Retirement.
Many women recognize they will face a retirement income shortfall and, therefore, are more likely than men to expect to work beyond the average age of retirement. In a recent Prudential survey of pre-retirees, 25 percent of women indicated that they don't think they’ll ever be able to retire, compared to 14 percent of men. Currently, one in seven women – compared to one in five men – are working past age 65. That number is expected to increase to one in five by 2024. In light of this expected increase, plan sponsors should consider making it a top priority to help participants with their retirement goals. Having employees who can retire when they want may benefit plan sponsors as well. When a significant percentage of the workforce isn’t retiring at an expected age, employees’ productivity and organizations’ ability to attract, promote, and retain new talent may be adversely impacted. In addition, research and analysis regarding the impact of delayed retirements on employers’ costs have shown that, using national averages for private sector workers, a one-year increase in the average retirement age results in an average annual incremental run rate of about 1–1.5 percent of workforce costs. This is about half the average annual employer cost of running a defined contribution (DC) plan.

The good news is DC plans, such as 401(k), 457(b) and 403(b) plans, can be designed to improve retirement outcomes. Legislative changes have enabled a more automated retirement plan experience, including automatic enrollment and contribution increases, which stand to benefit women who might not otherwise actively engage in retirement planning due to time constraints and other factors. Since women need to increase the amount they are saving, the opportunity is ripe to complement these plan design enhancements with education and engagement programs that focus on women’s financial wants and needs. Plan sponsors increasingly have the ability to leverage data to determine when participants are facing important milestones in their lives. The ability to use data to fuel proactive engagement regarding key savings and planning opportunities can also help make closing the gap an achievable reality. This paper will explore some key challenges faced by women and the ways in which plan sponsors can help.

**The Retirement Income Challenges Women Face**

**Women are living longer.** Women have longer life expectancies than men, outliving men by five years, on average. While this affords women the opportunity to enjoy an extended retirement, it also creates the need for them to save more to fund that retirement. As such, women need more savings to generate retirement income for a greater number of years. Women also face higher average healthcare costs than men during retirement. In fact, women need to save $140,000 by age 65 to have a 90 percent chance of covering healthcare expenses during their lifetimes, versus $124,000 for men.

**SAVINGS NEEDS**

**Women have longer life expectancies than men by 5 years on average.**

**Women are more likely to be single later in life.** Marriage patterns have changed over the last few decades. Divorce has become more prevalent, and more women are choosing to remain single.\(^{13}\) In addition, when they reach their retirement years, women are much less likely than men to be married. For those 65 and older, 70 percent of men are married, compared to just 45 percent of women.\(^{14}\) This is an important consideration, as marital status is strongly linked to many aspects of financial security.\(^{15}\)

Divorced and single women are unable to capitalize on the resource pooling and economies of scale that come with a marriage or partnership. Widowhood also causes financial security challenges, as household income often drops more significantly than household expenses when a spouse dies. In addition, not only do women have longer life expectancies than their male counterparts, but they tend to marry older men.\(^{16}\) The prospect of widowhood is significant and, in fact, over one-third of women today age 65 or older are widows.\(^{17}\) Moreover, there are three times as many widows over age 65 than widowers.\(^{18}\)

**Women are time-starved.** Women are often time-starved in their roles as workers, wives, mothers and daughters. On average, women in the U.S. spend 28 hours per week on unpaid work – 65 percent more than the average for men.\(^{19}\) In addition, while parenting duties have always disproportionately affected women’s time, other caretaking responsibilities are having the same effect. Approximately one in six workers serves as a caretaker to an aging or disabled family member, relative, or friend.\(^{20}\) Two-thirds of these caretakers are women.\(^{21}\)

Being time-starved may be even more problematic than it might first appear, as women tend to seek information before making decisions, and often do this by seeking input from others.\(^{22}\) An analysis of over thirty studies regarding how men and women think about problems or make decisions found that, in nearly 40 percent of the studies, women applied a more analytical approach than men.\(^{23}\)

When it comes to investing, women’s shortage of time, combined with their desire for more information in decision-making, may fuel procrastination, lower engagement, and reduced confidence. In fact, Prudential research found that only 20 percent of women felt very well prepared to make wise financial decisions.\(^{24}\)

**Women earn less.** Women working full-time generally earn less than men. In fact, the average woman working full-time earns 79 percent of the income earned by her male counterpart working full-time.\(^{25}\) This gap also holds true for lifetime earnings, and is exacerbated when a woman steps out of the workforce or reduces her work schedule to prioritize caretaking duties. Since Social Security benefits are based on career earnings, women’s Social Security benefits also tend to be lower. Further, when women take time out of the workforce, they limit their opportunity to invest in their workplace retirement plan.
Due to these factors, the income gap is even more pronounced in retirement than it is during working years. These issues are compounded by the shift in pension coverage that has occurred in the move from defined benefit (DB) plans to DC plans. Not only do DC plans require greater individual responsibility for saving an appropriate amount, but these plans also rarely provide the survivor income protection that DB plans provided to a retiring worker’s spouse.

**Women carry more debt.** Women’s advances in education and income have been accompanied by higher levels of borrowing for women of all ages. College debt levels have grown substantially in recent years, as 71 percent of graduates leave school with student loans and have an average debt amount of $35,000.\(^{26}\) The amount of student loan debt is particularly troubling for women, who are more likely than men to graduate with excessive debt levels that are 10 percent or more of their monthly gross income. **In fact, 29 percent of women now graduate with excessive student debt, compared to 24 percent of men.**\(^{27}\) Debt is also playing a role for older women. More women are reaching their pre-retirement years in debt, and the average amount of that debt has soared. Recently published research found that women ages 57-61 held nearly eight times the amount of debt in 2010 as women of the same age just 12 years earlier.\(^{28}\) Much of this higher debt is in the form of mortgage debt.\(^{29}\) These higher debt levels can threaten retirement security.

**Women aren't making retirement a priority.** Procrastination is a universal behavior that impacts retirement saving, but it seems to affect women more than men (See Figure A). In a recent survey, only a third of women indicated that they have a clear set of retirement goals, compared to 45 percent of men.\(^{30}\) Prudential research found that 44 percent of women agree that retirement is important, but feel they haven’t had a chance to give it the attention it deserves.\(^{31}\) The competing demands on women’s time can make it challenging for them to focus on long-term financial planning, and can diminish women’s confidence in their ability to manage their financial future.

**CLEAR SET OF RETIREMENT GOALS**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>45%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Prudential Retirement.

Prudential has partnered with a team of top behavioral scientists to identify reasons people avoid planning for retirement.\(^{32}\) Five universal behaviors that keep people from planning for their retirement have been identified. (See Figure A.) One behavior, trouble imagining a long life, is even more critical for women to recognize, given that they live longer than men.

**OLDER WOMEN'S DEBT HAS SKYROCKETED IN JUST 12 YEARS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$4,175</td>
</tr>
<tr>
<td>2010</td>
<td>$31,320</td>
</tr>
</tbody>
</table>

Women ages 57-61. Amounts are in 2015 dollars.

Source: Lusardi and Mitchell.
Figure A

Why Do People Avoid Planning For Retirement?

In order to get people to plan for retirement, it’s important to first understand why they don’t. Behavioral scientists working with Prudential have helped identify five universal behaviors that keep people from planning for their retirement.

<table>
<thead>
<tr>
<th>1. Trouble imagining a long life</th>
<th>“I might live how long?”</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Procrastination</td>
<td>“I’ll do it later.”</td>
</tr>
<tr>
<td>3. Being overly optimistic</td>
<td>“It won’t happen to me.”</td>
</tr>
<tr>
<td>4. Following the pack</td>
<td>“I just can’t resist.”</td>
</tr>
<tr>
<td>5. Instant gratification</td>
<td>“I want it now!”</td>
</tr>
</tbody>
</table>

Optimize Plan Design

Utilize automatic enrollment – and enroll at higher rates. Since women earn less, on average, than men, and must save more for retirement due to its higher cost, it is critical that women start saving early in their careers. Introducing an automatic enrollment feature into a DC plan will likely result in more employees saving for retirement, including female employees. For DC plans record-kept by Prudential, the average participation rate is 85 percent for plans with automatic enrollment and 57 percent for plans without. In addition, while it is critical for female employees to start saving, it is also important for them to save at an adequate rate. Automatically enrolling at higher contribution rates can help, since many employees do not change their default contribution rate. Across DC plans record-kept by Prudential, when the default rate for automatic enrollment was 3 percent or less, the opt-out rate was 5.7 percent. When the default rate was set higher, at 4 percent or more, the opt-out rate was only slightly greater, at 6.5 percent. To drive a level of contributions that ensures participants begin saving an adequate amount, a good target default rate for many plans is 6 percent. Assuming an employer match of 50 cents on each dollar of employee contribution up to 6 percent of salary, the result is a combined initial savings rate of 9 percent of salary for employees who are automatically enrolled.

Automatic escalation can also be used to help increase contribution rates over time. In a recent survey of female plan participants, 70 percent identified automatic enrollment and 61 percent identified automatic escalation as an important feature of a DC plan. Finally, automatically enrolling current employees who are not participating in the plan, rather than only automatically enrolling newly hired employees, can improve retirement outcomes for that segment of the employee population. In fact, the greatest impact may be achieved by combining some of these features and principles, such as using...

The Retirement Income Opportunities Plan Sponsors Can Embrace

While plan sponsors want to ensure that all of their plan participants save enough to retire securely, there are steps they can take to design their plan and provide resources that are especially helpful to women. These steps can be classified into two categories: plan design and education and engagement.
automatic enrollment at 6 percent or greater, automatically enrolling existing employees who are not currently participating in the plan, and adding automatic escalation up to a ceiling, such as 12 to 15 percent of pay.

**IMPACT OF AUTOMATIC ENROLLMENT**

85% participation rate with auto-enrollment, 57% without.

<table>
<thead>
<tr>
<th></th>
<th>85% Participation Rate</th>
<th>57% Without Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>WITH AUTO-ENROLLMENT</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>WITHOUT AUTO-ENROLLMENT</td>
<td>57%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Prudential Retirement.

**Use target-date funds as a default investment option.** Proper diversification is important to long-term investment success. Left to their own devices, many participants often allocate their investments to just one type of fund, such as investing all assets in either equities or fixed income. Across DC plans record-kept by Prudential, when female participants are not enrolled in an asset allocation solution, 40 percent of them have chosen allocations that are extremely invested in either equities or fixed income.36

Using a default investment that has a predefined investment strategy, such as a target-date fund, can result in participants allocating their investments across different asset classes. Target-date funds allocate underlying investments across different asset classes based on a targeted retirement date – generally investing a higher amount in equities earlier and becoming more conservative by lessening the equity exposure and increasing the exposure to fixed income investments as the targeted retirement date approaches. In addition, target-date funds have the added benefit of taking out of a participant’s hands the responsibility for rebalancing investments. Even though the principal value of target-date funds are not guaranteed, these features – diversification, asset allocation, and rebalancing – can help manage risk and maximize investment returns over the long term.

**Introduce guaranteed lifetime income options.** A primary goal of a DC plan should be to provide an adequate amount of retirement income for as long as it is needed. To accomplish this goal, a participant must first accumulate a sufficient balance, and then use a vehicle to ensure that payments in retirement last a lifetime that might span decades. Providing an institutionally priced annuity product for plan participants could assist on both counts. First, annuity products can lower the amount a participant needs to save to generate a given amount of retirement income. For example, Prudential found that providing a guaranteed minimum withdrawal benefit to an average female participant lowered the amount she needed to save by 36 percent.37 In the absence of guaranteed income, participants need to save more to self-insure against living a longer-than-average life and/or suffering from poor investment performance.

Second, annuity products can guarantee a lifetime stream of income, no matter how long a lifetime lasts. When plan sponsors incorporate an in-DC plan option, female participants can benefit from unisex pricing, which is required under ERISA law. Unisex pricing means that women cannot be charged a higher price for a product such as an annuity, even though their average life expectancy is longer. In a survey of female participants, 73 percent identified in-plan guaranteed lifetime income availability as an important feature of a DC plan.38

**In fact, the greatest impact may be achieved by combining some of these features and principles, such as using automatic enrollment at 6 percent or greater, automatically enrolling existing employees who are not currently participating in the plan, and adding automatic escalation up to a ceiling, such as 12 to 15 percent of pay.**
Transform Education and Engagement

Expand education programs to focus on financial wellness. Making changes in the short term, such as adopting automatic features for the 401(k), 457(b) or 403(b) plan experience, can help get women on a path toward saving for a secure retirement. Incorporating financial wellness programs into employee benefits offerings can help improve financial literacy over the long term, drive more frequent engagement, and build context for more informed decision-making.

Financial wellness programs can be designed to address the needs of specific employee segments, such as female employees, and to provide a combination of education, guidance, tools, and solutions that help improve financial health by focusing on some of the foundational elements of financial security: managing day-to-day finances, achieving important financial goals, and protecting against key risks. For example, since women of all ages are carrying much higher levels of debt than in the past, plan sponsors can help mitigate this growing issue by providing education on paying down debt, introducing debt management programs, and offering solutions to help employees protect their loved ones from inheriting debt.

Although average Social Security benefits for women are lower than for men, Social Security will continue to play a critical role in the financial security of female retirees. Providing education to those approaching retirement about different claiming techniques that will help maximize Social Security benefits can help employees navigate this complex topic.

Make support resources relevant and accessible. A benefit of providing financial wellness education at the worksite is that it may be the most effective way to reach women, who are often time-starved and unable to dedicate personal time to their finances. Female workers tend to be advice-seekers and often seek collaboration before making a decision. Worksite-based counseling, which may occur in-person, telephone, or video chat, can help.

In order to improve participant engagement with these resources, plan sponsors can also consider proactively communicating with employees during key life-stages, events, and milestones. **Plan sponsors shouldn’t hesitate to nudge their participants to take proactive steps – the benefit can make the difference in helping participants achieve their goals.**

Leverage technology to amplify retirement priorities. Technology can help participants better understand their retirement needs, monitor their progress, and think about opportunities in new ways. For example, web-based income planning tools can help workers understand how their retirement savings will translate into retirement income. Online behavioral experiments can help participants connect with their future selves or understand what behaviors may be slowing down their progress. Integrating these tools and experiences across channels, such as within the workplace or online, can help maximize utilization. Mobile account access can help workers stay current and monitor their progress towards their retirement goals. Plan sponsors can also integrate retirement-related topics into conversations more regularly through social media and networks, both within and outside the workplace, to reinforce the importance of making retirement and planning a priority.
Now What?

The retirement income gender gap is real, and the challenges facing women in achieving a secure retirement are daunting. Plan sponsors can make a significant difference by improving retirement plan design, providing holistic financial wellness education, and implementing targeted engagement programs.

Plan sponsors can start making a difference today by following three key steps:

- Review the plan to determine whether female participants are utilizing the plan effectively, and create a baseline to move forward.
- Discuss the plan design with the retirement plan advisor and provider, and commit to making changes, if needed.
- Rethink the approach used to educate and engage female participants and start experimenting with new programs, tools and technologies.

America’s retirement crisis is being felt both by individuals and by employers, whose workers can’t afford to retire. However, the crisis is felt more acutely by women. Women live longer, are more likely to be single later in life, earn less, carry more debt, are time-starved and therefore may procrastinate when it comes to retirement planning. By taking action now, plan sponsors can influence better retirement outcomes for all employees, while also achieving better business outcomes, such as increased employee productivity. The opportunity is now.

For more information on how plan sponsors can improve the financial wellness of their employees, please visit prudential.com/WE.
Endnotes

1 Prudential Retirement analysis reflecting defined contribution plan balances of Prudential record-kept plans as of December 31, 2015.


5 Prudential Retirement, 2016 Investing Behavior and Retirement Readiness Study, August 2016. For more information regarding this research, please visit the following website: https://investment.prudential.com/wps/portal/pipub?uri=urlmap:learningCenter/retirementreadinessstudy.vig.T1&pageId=31494.


7 Ibid.


9 Prudential, with supporting research and analysis from the University of Connecticut’s Goldenson Center for Actuarial Research. Percentage represents the incremental annual cost of a one-year delay in retirement averaged over a five-year period.

10 Ibid. Based on national aggregate workforce costs, which are spread out over all private sector employees, even though not all employees have access to a defined contribution plan.


12 Employee Benefits Research Institute, EBRI Notes, Vol. 36, No. 10, October 2015.


15 Amelia Karreker and Cassandra Diorius, “Marital Histories, Gender, and Financial Security in Late Mid-Life: Evidence from Four Cohorts in the Health and Retirement Study (HRS).”


18 Ibid.  


25 U.S. Census Bureau, Historical Income Tables Table P-40: Women’s Earnings as a Percentage of Men’s Earnings by Race and Hispanic Origin, 2016.


27 Ibid., p. 7. Excessive student debt is defined as having 10% or more of monthly gross income needed to repay student loan debt.


29 Ibid.

30 Prudential Retirement participant research, 2015.

31 Ibid.

32 Prudential worked with Dan Gilbert, Adam Alter, Piers Steel, Tali Sharo, and Hal Herschfeld.

33 Prudential Retirement internal analysis, 2016.

34 Ibid.

35 Prudential Retirement survey of DC plan participants, 2015.

36 Prudential Retirement internal analysis, 2016.

37 Prudential Financial Calculations of 2,000 Monte Carlo simulations, 2011. Contribution of 6% of salary starting at age 30, gradually increasing to 15.5% by age 65. Employer matches contributions up to 4% of salary. All 2,000 simulations are reflected in the averages. Total retirement income reflects the sum of annual withdrawals from age 65 to 95, expressed as a future value when investor is age 95 using a 5% re-investment rate. Income under the GMWB DC plan is higher than under the Traditional DC plan because the withdrawals are higher, investment return driven step-ups may occur, and withdrawals continue even if investor runs out of money.

38 Prudential Retirement survey of DC plan participants, 2015.
The target date is the approximate date when investors plan to retire and may begin withdrawing their money. The asset allocation of the target-date funds will become more conservative until the date which is ten years prior to the target date by lessening the equity exposure and increasing the exposure in fixed income investments. The principal value of an investment in a target-date fund is not guaranteed at any time, including the target date. There is no guarantee that the fund will provide adequate retirement income.

A target-date fund should not be selected solely based on age or retirement date. Before investing, participants should carefully consider the fund’s investment objectives, risks, charges and expenses, as well as their age, anticipated retirement date, risk tolerance, other investments owned, and planned withdrawals.

The stated asset allocation may be subject to change. It is possible to lose money in a target-date fund, including losses near and following retirement. Investments in the funds are not deposits or obligations of any bank and are not insured or guaranteed by any governmental agency or instrumentality.

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