PROVIDING FOR A SURVIVING SPOUSE IN RETIREMENT

New Considerations for Couples as the Retirement Landscape Shifts *Executive Summary*

Fundamental change has shaken the foundation of the U.S. retirement system. The three traditional pillars of that system—employer-sponsored retirement plans, Social Security, and individual savings—no longer provide adequate retirement security for a growing number of Americans.[1] In fact, the Center for Retirement Research at Boston College reports that 50 percent of working-age households are at risk of not being able to maintain their standard of living in retirement.[2] Fortunately, financial advisors can help individuals save for retirement and manage their financial risks.

What Happened?

A number of developments and economic/societal trends have made it increasingly difficult for individuals to effectively plan for and manage retirement. These trends, while problematic today, portend even more dire consequences in the future, especially for married couples:

- **The Demise of Defined Benefit Pension and Retiree Medical Plans.** As employers shift more financial responsibilities and risks to employees, individuals are responsible for funding a greater share of their retirement and healthcare costs. This creates a potentially significant personal liability that is even greater for married couples trying to plan for two lives.

- **Changes to Social Security.** Compared to their parents and grandparents, individuals today can expect to receive reduced lifetime Social Security benefits due to increases in the Full Retirement Age, which is the age at which Social Security recipients can receive 100 percent of their Social Security retirement benefit. In addition, some popular Social Security claiming strategies, primarily used by married couples, have disappeared as a result of the Bipartisan Budget Act of 2015.

- **Increasing Longevity.** As traditional pension plans and employer-provided retiree medical plans become less prevalent, individuals are assuming more responsibility for managing longevity risk—even as average life expectancies and healthcare costs continue to rise.

- **Increasing Debt in Retirement.** In conjunction with longer life expectancies, couples are bringing much higher levels of debt into retirement than in the past, further increasing personal liability.

1 U.S. Government Accountability Office, "The Nation's Retirement System," October 2017.
2 Prudential, "Planning for Retirement: A Generational Perspective," January 2018.

Bottom Line?

Future retired couples cannot look to the experience of previous generations, when more financial safeguards were in place, and assume their own retirement will work out as financially well. Married couples today are saddled with increasing personal liabilities, but have fewer assets to meet them. All these issues are magnified, unfortunately, when one partner in a marriage dies. The outlook for future widows and widowers is particularly unnerving, as they are now more vulnerable to outliving their retirement income with fewer financial safeguards in place.

The Shift in Retiree's Balance Sheets

1980–1990s

FINANCIAL ASSETS	LIABILITIES
Full Social Security at 65	Healthcare costs
Employer-sponsored defined benefit pension plan	Small mortgages (or none at all)
Employer-sponsored retiree medical insurance	
Personal savings	

2018

FINANCIAL ASSETS	LIABILITIES
Full Social Security at 66-67	Increasing healthcare costs, due to longevity and healthcare inflation
Employer-sponsored defined contribution plan (e.g., 401(k) plan)	Large amount of debt (e.g., mortgage and student loan debt)
Personal savings	

A Solution.

Financial advisor consultations can help future retirees save more for retirement, manage their retirement risks, and help ensure that a surviving spouse is protected against outliving their retirement income. A financial advisor can help establish realistic retirement expectations and recommend products and solutions, such as life insurance and/or annuities, to address various retirement risks.

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