

RISK MANAGEMENT ISSUES FOR INDIVIDUALS with Special Emphasis on Women

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What the paper includes

- Identification of risks—with comments on risk management strategies, and special issues for women
- Tips on buying financial products
- What changes by age
- Review of research—perceptions about risk
- Discussion of importance of home equity
- Recommendations for the future
- Also in the paper – not in presentation
 - Link to financial crisis
 - Predictions for the future
 - Case study—story to help bring everything together

Risks and Special Issues for Women

Risk	Potential Range
Outliving Assets	At 65 – life expectancy = 17 years for men and 20 for women 20% of men and 30% of women 65 can expect to live to 90
Loss of spouse	Women often marry younger men + live longer, periods of widowhood of 15 years+ are not uncommon
Decline in functional status	Women have longer expected periods of needing help Women are less likely to have family caregiver
Health and medical expenses	Couple both age 65 can expect \$250,000 in lifetime costs beyond Medicare; varies a lot by situation
Inflation	Women live longer and are more affected by inflation
Investment risk	Women are less likely to take risk than men
Premature retirement risk	4 out of 10 retire before they had planned to

Tips on Buying Financial Products: Think about Product Variations

Income producing products

- Liquidity
- Possibility of changing direction later
- What guarantees and survivor benefits are included
- Link of payments to investment returns
- Inflation protection?
- Third party solvency protection
- Benefits on death
- Additional payments on disability

Long-term care financing

- Conditions under which funds are available
- Whether benefits paid if care provided at home, in assisted living or only in nursing home
- Waiting period and maximum benefit period
- Inflation protection?
- Guaranteed renewability
- Third party solvency protection
- Residual benefits if premiums stop

What Changes by Age: Median Total Income and Reliance on Social Security

	Age 65-69	Age 70-74	Age 75-79	Age 80+
Median Total Income				
Married	\$47.3	\$39.9	\$33.3	\$30.6
Not married	\$19.0	\$16.1	\$15.9	\$14.7
Percent relying on Social Security for more than				
50% of income	41%	55%	63%	71%
90% of income	20	27	32	37

Note: Income is in thousands

Source: Exhibit III of paper

What changes by age: Percentage of individuals by marital status, sex and age

	Age 65-74	Age 75-84	Age 85 +
MALES			
% Married	78%	74%	60%
% Widowed	8%	17%	34%
FEMALES			
% Married	57%	38%	15%
% Widowed	26%	52%	76%

Source: Exhibit VI of paper—Note that paper includes more detail.

Division of Life Expectancy (in years) by Health States (U.S. Data)

Age	Non-Disabled	Mild or moderate disability	More severely disabled	Total Life Expectancy
		MALES		
65	12.34	1.50	1.50	15.33
75	6.77	1.37	1.61	9.76
85	2.89	1.04	1.75	5.68
95	.81	.61	1.91	3.34
		FEMALES		
65	13.65	2.97	2.83	19.44
75	6.99	2.55	2.96	12.50
85	2.47	1.74	3.03	7.24
95	.52	.78	2.54	3.84

Research findings: Ten years of post-retirement risk research

- Misperceptions still exist after 20+ years of 401(k)s and IRAs
- Planning horizons relatively short: 5-10 years for many people (compared to much longer expected life spans)
- Few plan for unplanned early retirement
- Widows and very old will continue to be vulnerable
- Cutting expenses, not purchasing financial products is main risk management strategy
- Unclear what long-term impact downturn will have

Wealth of Middle Income Households Age 55 to 64

Analysis based on 2004 Survey of Consumer Finances

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets %
Middle Mass Household Segments (25% to 75% of all households)						
Married	5.2 million	\$75,000	\$348,000	\$240,000	\$108,000	69%
Single Female	2.5 million	\$28,000	\$111,000	\$75,000	\$36,000	68%
Single Male	1.4 million	\$41,000	\$125,000	\$89,000	\$36,000	71%
Mass Affluent Household Segments (75% to 85% of all Households)						
Married	1.0 million	\$132,000	\$1,300,000	\$884,000	\$416,000	68%
Single Female	.5 million	\$58,000	\$415,000	\$299,000	\$116,000	72%
Single Male	.3 million	\$79,000	\$465,000	\$349,000	\$116,000	75%

Note: Financial assets exclude the value of defined benefit pensions and Social Security.

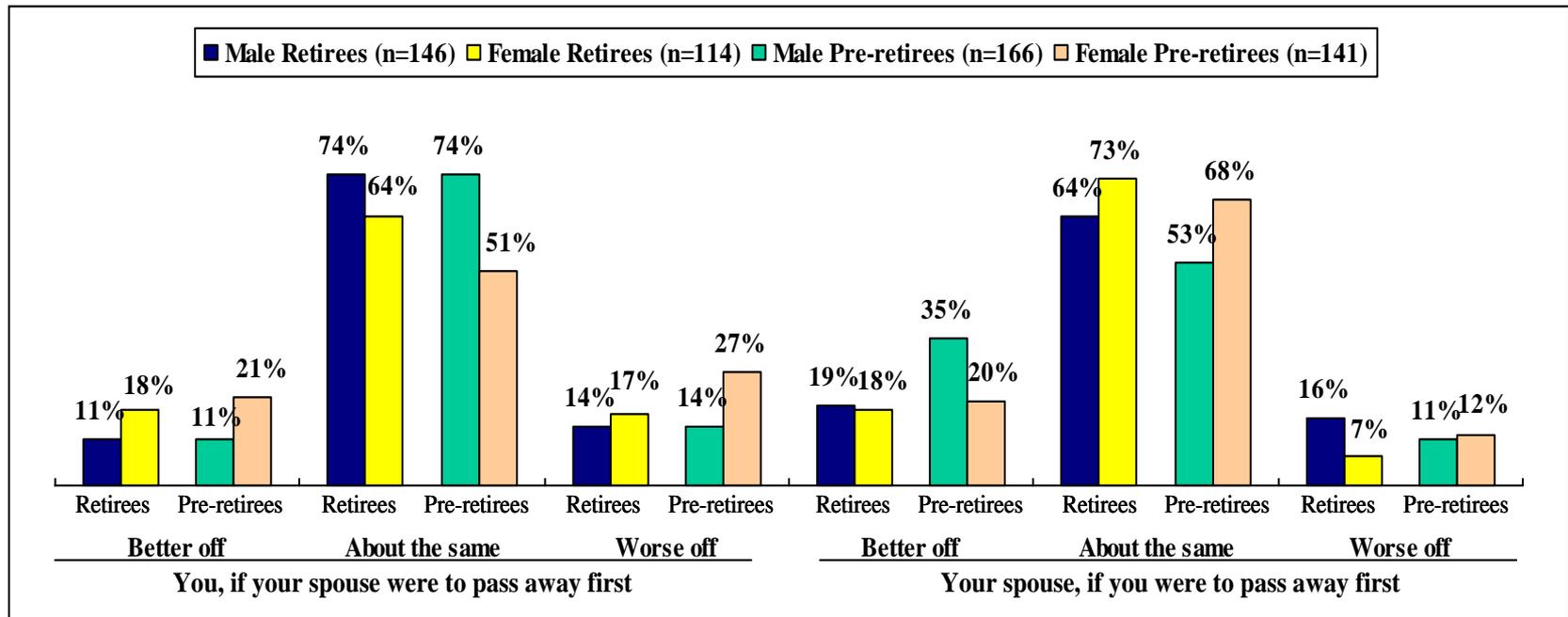
Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, 2009.

Loss of a Spouse

Married women are more likely than their husbands to recognize their financial vulnerability in the event that they become widowed.

If your spouse were to pass away before you, do you think it would leave you financially...? (If married)

If you were to pass away before your spouse, do you think it would leave your spouse financially...? (If married)



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

Special Post-Retirement Risks for Women: Loss of Spouse

- Periods of widowhood of 15 years or more are not uncommon.
- The death of a spouse is often accompanied by a decline in standard of living.
- Women are much more likely to be alone in old age.
- Elderly women are more likely to be poor.
- More than 85% of the female population over age 85 are widows compared to about 45% for men.

Special Post-Retirement Risks for Women: Decline in Functional Status

- Nursing home costs may run \$70,000 or more per year. ⁽¹⁾
- Women more likely to be caregivers, less likely to have a family caregiver.
- Care may be provided at home, in adult day care centers, assisted living facilities or nursing homes.
- Women are likely to have a longer period of chronic disability and need assistance in a long-term care facility or from a paid caregiver.
- 20% of the residual life expectancy at age 65 for men and 30% of the residual life expectancy at age 65 for women were spent in a state of chronic disability. ⁽²⁾
- Women alone have lower assets and income.

(1) MetLife Market Survey of Nursing Home and Home Health Care Costs, 2005

(2) National Long Term Care Study data from 1984, 1989 and 1994

Conclusions: Summary of Key Facts

- Married couples are much better off than single persons
- Many more older single women than men
- Income from Social Security—fairly constant by age
- Other sources of income decline with increasing age
- Social Security monthly benefits can be increased by later claiming, but most claim early
- Chances of being frail increase significantly at higher ages
- Women expected to have longer periods of frailty
- Older women alone are very dependent on Social Security
- Risk management products not very popular method of managing risk

Conclusions Specific to Women

- Role of Social Security is critical, especially to women alone at lower income levels
- Financial literacy challenges are more severe for women
- Married women are very often widowed
- Widows are often impacted by their husband's early retirement
- Women near retirement often focus more on the short-term and managing day-to-day
- Having a shorter planning horizon has more of an impact on women due to their longer life expectancy
- Inflation is more important to women

Recommendations for a Better Future

- Encourage longer-term balanced planning
- Address gaps in financial and health literacy
- Update retirement ages for increased longevity
- Change terminology about retirement ages
- Help people integrate housing planning with retirement planning
- Encourage effective messaging and signals
- Make individual financial products more appealing
- Support and improve employer plans—with effective defaults
- Enable use of DC funds for risk protection
- Make advice available to the middle class