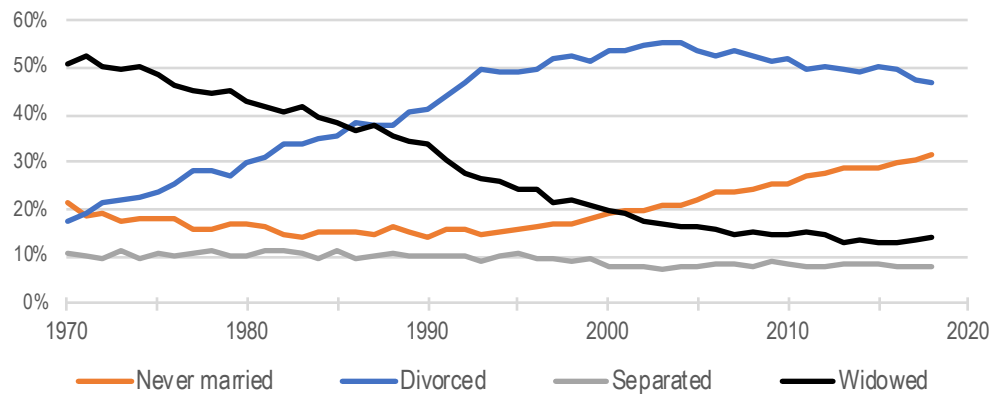




Planning for Retirement: Women in Two-Income Households at Highest Risk

For women, the road to retirement security has become more challenging over the course of just a few generations. As recently as the 1950s and 1960s, young women could expect to spend most of their adult lives married.¹ Husbands worked outside the home while wives, in many cases, managed the household and child care. For retirement income, women could typically rely on spousal and survivor benefits from the Social Security program, and perhaps survivor benefits from their husband's pension.

Reasons for Being Single for Women Ages 50-59, 1970-2018



Source: Center for Retirement Research at Boston College, based on the U.S. Census Bureau's *Current Population Survey* (1970-2018).

Today the landscape looks much different. In addition to spending less time in marriage, far more women work outside the home.² Sixty percent of married couples in the U.S. are now two-income couples.³

¹ Center for Retirement Research at Boston College, "Do Women Still Spend Most of Their Lives Married?" August 2017.

² U.S. Department of Labor, Civilian Labor Force by Sex, based on 1948-2016 annual averages.
https://www.dol.gov/wb/stats/NEWSTATS/facts/women_if.htm#CivilianLFSex

³ Harvard Business Review, "Being a Two-Career Couple Requires a Long-Term Plan," February 26, 2018.

Middle-aged women also are more likely to be single, due primarily to divorce or never having been married,⁴ and responsible for their own financial well-being in retirement.

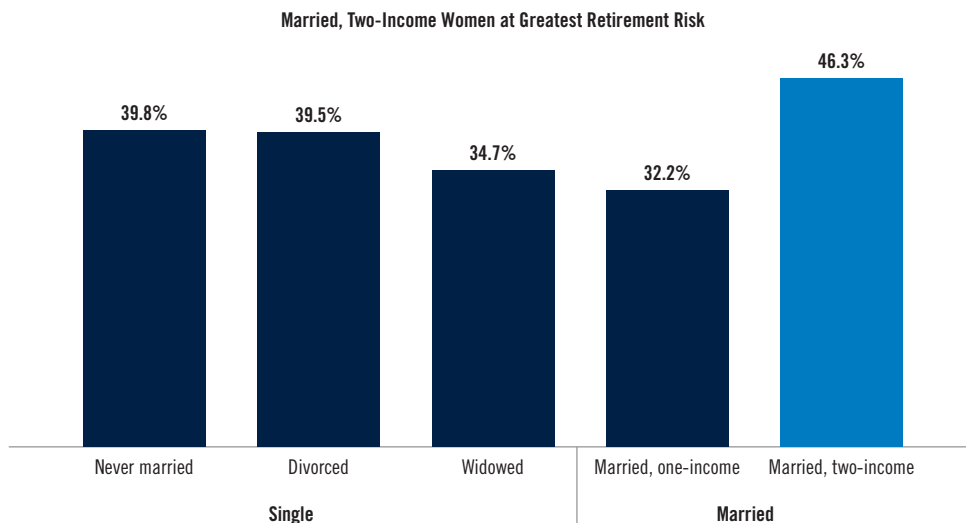
Finally, traditional pension plans have become less common than they were a few generations ago. Combine the declining availability of pensions with Social Security spousal benefits that become less relevant when both spouses work, women today simply cannot look to the experience of previous generations, when more financial safeguards were in place, and assume their own retirement will work out as well financially.

Research Findings

This disconcerting outlook for women builds on the latest research from the Center for Retirement Research at Boston College (CRR). The CRR's National Retirement Risk Index (NRRI) compares projected income replacement rates for households (retirement income as a percentage of pre-retirement income) with target replacement rates that would allow households to maintain their standard of living in retirement. Households where the projected replacement rate falls more than 10% below the target are considered at risk of having insufficient income in retirement to maintain their pre-retirement standard of living.

Recently, the CRR used the NRRI to assess the retirement security of women in their 50s based on their marital status.⁵ Surprisingly, it found that those most at risk are married women in two-income households. Despite the benefits of dual incomes, the NRRI found that 46% of the women in these households are at risk of being unable to maintain their standard of living in retirement, versus 32% of married women in one-income households and 39% of all single women.

Surprisingly, the NRRI found that those most at risk of falling short in retirement are married women in two-income households.



Source: CRR.

⁴ Center for Retirement Research at Boston College, "Women, Marriage, and the NRRI," June 2019.

⁵ Based on the 2016 Federal Reserve *Survey of Consumer Finances*; includes households (single or married) with at least one woman age 50-59 born between 1957-1966. Includes female-female households.

The CRR attributes this counterintuitive finding largely to three factors:

- **The progressive design of Social Security benefits.** Due to the declining relevance of the Social Security spousal benefit when both spouses work, two-income households typically receive lower Social Security benefits per tax dollar paid than one-income households. The spousal benefit generally declines once the second spouse starts working, and disappears completely once the lower-earning spouse's own benefit exceeds one-half the higher earner's benefit.
- **Inadequate saving in workplace retirement plans.** Only about half of private sector workers have access to a workplace retirement plan. Unfortunately, Americans rarely save for retirement outside of such plans. As a result, it is often the case that only one spouse in a two-income household saves for retirement and rarely saves additional amounts for their non-saving spouse.⁶ Ultimately, this leaves the couple with too little set aside for retirement.
- **Adverse impacts from divorce.** This third factor relates to all married women in the analysis, rather than just those in two-income households. About a third of the married women had been through a previous divorce, adversely impacting the economic status of their new household. In fact, CRR research shows that for households that have been through a divorce, the risk to retirement readiness is seven percentage points worse, on average, than it is for households where neither partner has been divorced.⁷

Prudential's Perspective

Women of every marital status face significant challenges in achieving financial security in retirement. As noted in our previous report, "[Closing the Retirement Income Gender Gap](#)," women on average earn about 20% less than men, receive less in Social Security benefits, and accumulate 32% less in retirement savings.

Women also are more likely to have inconsistent work histories due to caregiving responsibilities, which can interfere with their ability to save for retirement. Partly as a result, women are projected to have 42% less retirement income than men, a particularly disconcerting statistic given that women typically live longer.⁸

There is a common perception that single women face an even more challenging road to retirement than married women, especially those who have never been married. Single women are on their own financially, after all, and their retirement savings tend to be lower than those of their married and even widowed peers.⁹ While widows can experience a sharp decline in income when a spouse dies, they (and divorced women) may have access to their spouse's (or ex-spouse's) assets and Social Security survivor benefits—funds that are unavailable to single, never married women.

As noted earlier, the CRR finds that married women in two-income households actually have the more tenuous financial outlook. Let's look closer at why dual incomes don't necessarily translate into long-term financial security.

⁶ Center for Retirement Research at Boston College, "Women, Marriage, and the NRRI," June 2019.

⁷ Center for Retirement Research at Boston College, "How Does Divorce Affect Retirement Security?" June 2018.

⁸ Prudential, "Closing the Retirement Income Gender Gap: The Opportunity is Now," 2017.

⁹ Barron's, "The Single Woman's Guide to Retirement Planning," March 2019.

Women in Two-Income Households Face Unique Financial Challenges

Maintaining a two-income lifestyle. Two-income households typically get used to living a two-income lifestyle. They tend to spend more on fixed expenses—mortgages and car payments, for example—than they would with only one spouse working, since two incomes allow them to “afford” more.¹⁰ Having built a lifestyle dependent on two incomes, they can see their financial plans upended by the untimely death of a spouse or the unexpected loss of a job, either of which can cause household income to fall farther and faster than household expenses. Ultimately, this can lead to insufficient retirement savings, which in turn can lead to financial strain for the surviving spouse and/or a significant downgrade in their lifestyle.

Paying more in Social Security taxes, but receiving lower Social Security benefits per tax dollar paid. A two-income household will often pay more in Social Security taxes than a one-income household with the same level of income. That’s because the federal government only collects Social Security taxes on an individual’s income up to a certain threshold (\$132,900 in 2019). If a one-income household earned \$200,000 this year, for example, its Social Security tax bill would be \$8,240. (Taxable income of \$132,900 multiplied by 6.2%, the current Social Security tax rate for employees.) If a two-income household earned the same \$200,000 split evenly between each spouse, however, all of their earnings would be subject to the Social Security tax, for a total of \$12,400 (Taxable income of \$100,000 multiplied by 6.2% for each spouse). That’s \$4,160 more than the one-income household would pay, and it is money that otherwise could be invested for retirement. (See Figure 1 below).

Figure 1

One-Income Couple, Age 50				Two-Income Couple, Age 50				Difference
	Husband	Wife	Total		Husband	Wife	Total	
Earnings	\$200,000	\$0	\$200,000	Earnings	\$100,000	\$100,000	\$200,000	
FICA Social Security Tax	\$8,240	\$0	\$8,240	FICA Social Security Tax	\$6,200	\$6,200	\$12,400	\$4,160

The tax penalty for two-income households can be even worse if one spouse is a self-employed independent contractor. In that case, he or she would have to pay both the employee portion of the Social Security tax as well as the employer portion—a combination that totals 12.4%. In our example above, say the two-income couple consisted of an employee husband and an independent contractor wife. The total Social Security tax bill for the two-income couple would now be \$18,600 (\$6,200 for the employee husband, and \$12,400 for the independent contractor wife). That’s \$10,360 more than the one-income household would pay, as shown in Figure 2 on the next page.¹¹

¹⁰ Kitces.com, “Why Two Incomes Aren’t Always Better Than One,” December 2017.

¹¹ Although the spouse who works for an employer only explicitly pays half of the payroll tax, he/she also likely bears the burden of some portion of the employer payroll tax through reduced compensation.

Figure 2

One-Income Couple, Age 50				Two-Income Couple, Age 50				Difference
	Husband	Wife	Total	Husband	Wife (independent worker)	Total		
Earnings	\$200,000	\$0	\$200,000	\$100,000	\$100,000	\$200,000	—	
FICA Social Security Tax	\$8,240	\$0	\$8,240	\$6,200	\$12,400	\$18,600	\$10,360	
Social Security Benefits at age 67	\$67,968	\$33,984	\$101,952	\$56,820	\$56,820	\$113,640	\$11,688	

Red circles indicate higher Social Security taxes. Green circles indicate higher Social Security benefits.

Note: Social Security projections estimated using the Social Security Quick Calculator in inflated (future) dollars and based on the 2019 earnings cap. All numbers are reported on an annual basis. For simplicity purposes, the FICA Social Security taxes for the independent contractor were modeled at 6.2 percent. In reality, the independent contractor receives a deduction for the employer-side of self-employment taxes in the FICA calculation. Therefore, in this example, the wife would pay a total of \$11,451 (\$100,000 x 12.4 percent x 0.9235) in FICA taxes versus \$12,400.

In addition to possibly paying more in Social Security taxes, women in two-income households may find themselves only eligible for the same amount of Social Security benefits as women in one-income households. That’s because the Social Security benefit structure was designed decades ago when few women were employed outside the home. As such, the program makes a wife eligible for a spousal benefit equal to one-half her husband’s benefit, if the benefit she earned on her own work record is lower than one-half her husband’s benefit. She also is eligible to step up to her husband’s higher benefit, in the form of a survivor benefit, when he dies. By contrast, a woman in a two-income household who earns about the same as her spouse will not receive any Social Security spousal benefits, and potentially lower survivor benefits, if any. In the scenario outlined earlier, for example, neither of the spouses in the two-income household would be eligible for a spousal benefit. On the other hand, the unemployed spouse in the one-income household would be eligible for a \$67,968 survivor benefit upon her husband’s death.¹²

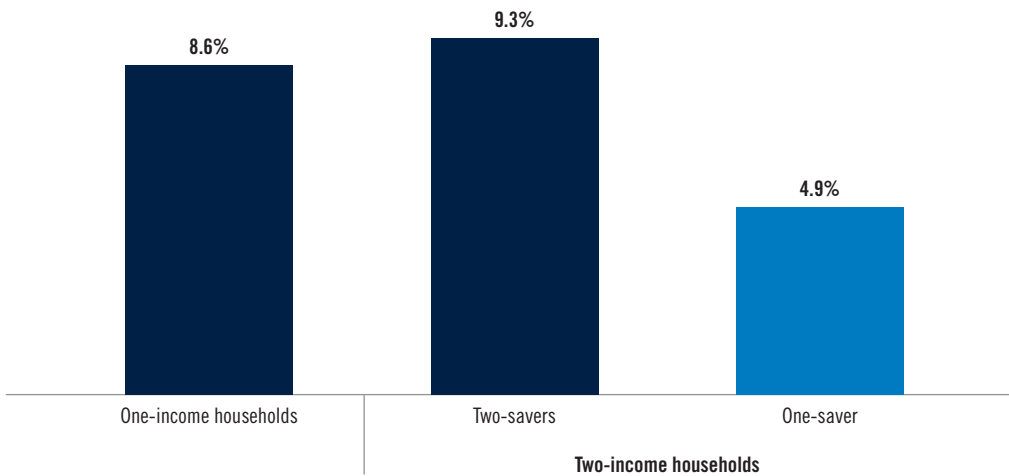
To be sure, the two-income couple in our example will receive slightly higher Social Security retirement benefits than the one-income couple: \$113,640 versus \$101,952. (See Figure 2). However, the value of that higher benefit is misleading because it is only received upon retirement and doesn’t account for the time value of money.

To illustrate, let’s look again at the two-income household in which one spouse is an independent contractor. Together, this couple is paying an extra \$10,360 in Social Security taxes compared to a one-income household. If they were able instead to invest that sum each year for 35 years, earning a 6% annual return, they would accumulate an extra \$1.15 million for retirement. (This assumes the couple married at age 32 and retired at the Full Retirement Age of age 67).

¹² Social Security projections estimated using the Social Security Quick Calculator, accessed on May 3, 2019, <https://www.ssa.gov/OACT/quickcalc/>

Saving too little in workplace retirement plans. As mentioned earlier, only half of private sector workers have access to a workplace retirement plan, and very few people save outside those plans. It is often the case, then, that in a two-income household only one spouse is saving for retirement, and typically not saving extra for his or her non-saving spouse. Indeed, the CRR found that the average 401(k) savings rate for one-income households and two-income, two-saver households is typically around 8% to 9% of household earnings (including employer contributions). However, the average savings rate for two-income, one-saver households is only about half that—4.9% of household earnings.¹³ Clearly the two-income, one-saver households—who represent about 42% of all two-income households¹⁴—are saving too little. In this scenario, the CRR suggests that the spouse with access to a workplace retirement plan would have to save 16% of his or her earnings to match the overall household saving rate of the two-income, two-saver household.¹⁵

Average Contribution Rate as a Share of Household Earnings



Source: CRR (2019).

Conclusion

It has always been important for women to plan and save for retirement. It’s even more true today, especially for women in two-income households that may be saving too little for retirement and paying more in Social Security taxes than one-income households.

These two-income households should begin saving more for retirement as soon as possible, especially if one spouse, or both, lack access to a workplace retirement plan. They also should ensure that appropriate mechanisms are in place—including, perhaps, life insurance policies—for a surviving spouse to maintain his or her lifestyle in retirement in the event that one spouse dies prematurely. Fortunately, there are many steps women can take to put them further along the road to retirement security, and many measures employers and policymakers can take to help with those efforts.

¹³ Center for Retirement Research at Boston College, “Do Individuals Know When They Should Be Saving for a Spouse?” March 2019.

¹⁴ Ibid.

¹⁵ The median two-income household with one-saver that was included in the analysis made \$86,318. The saver made \$50,000 of this amount. To get to the same savings rate of the two-income, two-saver couples (9.3%), the two-income, one-saver couple would need to save a total of \$8,028 dollars (\$86,318 x 0.093). Therefore, the two-income, one-saver couple would need to save approximately 16% of his or her salary (\$8,028 / \$50,000) to match the overall household saving rate of the two-income, two-saver household.

Appendix A:

Financial Wellness Tips for Retirement

Women can take many measures to help themselves along the path to retirement security. Employers and policymakers can help, too.

Individuals

- **Start saving early, commit to the automatic escalation of contributions to a 401(k) plan, and contribute at a rate that, at a minimum, maximizes the company's match.** When both spouses have access to a 401(k), both should contribute to their own plan so they don't forfeit any company match that might be available.
- **Track retirement savings progress in terms of an income goal** rather than a savings goal, targeting a realistic retirement age.
- **Think longer-term.** Married women need to think long-term because they generally live longer than men and this longevity difference makes them more likely to experience widowhood.
- **Consider working a few years longer, and take advantage of catch-up contributions,** especially if behind on your savings goals. Working longer delivers triple benefit. It delays Social Security benefits by a few years, which lets you receive higher monthly benefits. It allows you to accumulate savings for a few more years. Finally, it reduces the number of years you'll need to draw down retirement savings. Women and men 50 and older are eligible to make catch-up contributions to their retirement accounts over and above standard contribution limits.
- **Maximize Social Security claiming options.** Prudential's [Social Security series](#) provides guidance on optimizing Social Security claiming decisions for those who are married, divorced, or widowed.
- **Consider insuring retirement income** against longevity and market risks. Guaranteed income products, such as annuities, can help insure against these risks and are available in an increasing number of 401(k) plans.
- **Carry an adequate amount of life insurance.** Both spouses should carry an adequate amount of life insurance to ensure that, should their income disappear, their spouse can pay off outstanding debt and maintain their lifestyle.
- **Coordinate workplace employee benefits.** Two-income spouses, who are each eligible for their own company's employee benefit options, should evaluate the costs and features of both sets of benefit packages (e.g., deductibles, copayments, etc.) in order to obtain sufficient coverage, minimize costs, and lessen any tax implications.

Employers

- **Provide financial wellness education and programs** that help traditional employees achieve the foundational elements of financial security: managing day-to-day expenses, protecting against key financial risks, and achieving important financial goals.
- **Educate married employees about the potential need to save for two** if one spouse doesn't have access to a 401(k) or similar retirement savings plan.
- **Provide education on how much income will be needed in retirement to cover expenses, and on identifying potential sources of income** (e.g., Social Security, personal savings, retirement plans, and annuities). Planning tools can help employees set and gauge progress against retirement-income objectives.
- **Enhance 401(k) plans to help employees achieve more certain outcomes** through features such as automatic enrollment (and re-enrollment), automatic escalation of contributions, employer matching contributions, and in-plan guaranteed lifetime income products that help to reduce the level of 401(k) savings employees need to generate their desired level of retirement income.

- **Offer Qualified Default Investment Alternatives, such as target-date funds, in 401(k) plans.** Fifty-three percent of surveyed finance executives say plan participants are apt to make better investment decisions when presented with pre-packaged diversified investments like target-date funds.¹⁶
- **Help employees save for future healthcare expenses by offering health savings accounts (HSAs),** which allow account owners to make tax-deductible contributions, earn tax-free interest, and make tax-free withdrawals for qualified medical expenses now or in retirement.
- **Provide a robust and customized benefits lineup** that meets the needs of the employee base. Use data analytics to gain insight into how plan design drives employee behavior, and to design benefits that optimize employee outcomes for employees.

Policymakers

- **Pass legislation to make it feasible for more small employers to offer 401(k) plans** in the form of multiple employer plans (MEPs). MEPs allow small businesses to band together to offer joint plans and eliminate unnecessary administrative and compliance burdens currently associated with those plans.
- **Create safe harbors** that address potential employer concerns regarding the addition of guaranteed lifetime income products to 401(k) plans.
- Adopt regulations that **require defined contribution plans to project future monthly income** on participant statements.

¹⁶ CFO Research/Prudential, "Helping Employees Achieve Secure—and Timely—Retirements," 2016.

Appendix B:

Addressing Womens' Retirement Challenges with Financial Wellness Programs

As a group, women are at greater risk than men of outliving their savings and not being able to maintain their standard of living in retirement. The causes are many, including lower lifetime earnings, lower Social Security benefits, and lower 401(k) balances. Other challenges include:

- **Longevity risk.** Women tend to live longer than men—five years on average¹⁷—which necessitates that they save more so they can generate retirement income for a longer period of time.
- **Inconsistent work histories.** In the division of labor at home, women often assume more responsibility than men for housekeeping and caregiving. As a result, women tend to accrue fewer years of paid work and lower career earnings.¹⁸
- **Increased debt.** Women today are carrying more debt in retirement, and at older ages, than they did in the past.¹⁹ If debt continues to grow with age, women will have to divert more of their retirement income to servicing it.
- **Singlehood in retirement.** Women are more likely than men to be single in old age, and they need to plan for their retirement accordingly. In 2017, among Americans 65 and older, 70% of men were married compared to just 46% of women. Thirty-three percent of women 65 and older were widows.²⁰
- **Higher healthcare costs.** Medical costs generally increase with age. Because women tend to marry men who are older than them, and because they tend to live longer than men, women are at greater risk of depleting their retirement savings from paying for their spouse's health and long-term care expenses.²¹

Employer-sponsored financial wellness programs can help women respond to these risks and challenges. Financial wellness programs are designed to help workers manage day-to-day finances, protect against key financial risks, and achieve important financial goals. They can be tailored to address the needs of specific employee segments, including female employees. Well-designed programs provide a combination of education, guidance, tools, products, and services, including:

- Budgeting and debt management tools
- Emergency savings accounts
- Calculators for identifying adequate 401(k) contribution rates
- Information on claiming Social Security benefits
- Options to buy life insurance, which can replace income in the event of a working spouse's premature death, or provide money to a surviving spouse in retirement
- Access to annuity products that can provide guaranteed lifetime income

At the heart of any sound benefits program, of course, is a well-designed workplace retirement plan, such as a 401(k), that can help employees foster good savings behavior. Retirement plans can be particularly effective when they include features such as automatic enrollment (and re-enrollment) and automatic contribution escalation, which can automate prudent behaviors. Matching contributions from the employer can be helpful, too; they can help increase participation rates while bolstering employees' retirement accounts. Access to a well-designed retirement savings account is becoming increasingly important as women face new and growing challenges to achieving a financially secure retirement.

¹⁷ U.S. Department of Health and Human Services, "Health, United States, 2017," 2017.

¹⁸ Society of Actuaries, "Women and Post-Retirement Risks", 2018.

¹⁹ Prudential, "Closing the Retirement Income Gender Gap: The Opportunity is Now", 2017.

²⁰ Administration on Aging, U.S. Department of Health and Human Services, "2017 Profile of Older Americans", p. 3, 2017.

²¹ Society of Actuaries, "Women and Post-Retirement Risks", 2018.

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