

# Financial Planning

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## **The Bag Lady Bugaboo**

*Planners can help women address the real fears of poverty in old age.*

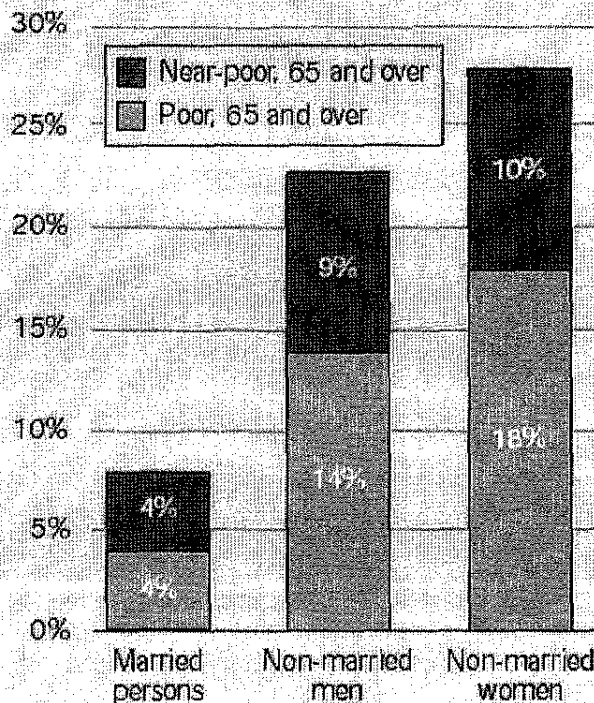
By Janet Aschkenasy

March 1, 2005- Jan Geiger, a CFP at Financial Network Corp. in Atlanta, has a widowed client with more than \$600,000 in investments and a mortgage-free home that brings her net worth to maybe \$1.5 million. Yet year in and year out, Geiger says, her 70-year-old client "dresses like a bag lady" and "cries poor" to her local tax office. In fact, this client pays about one third as much in real estate tax as her neighbors.

The overwhelming fear of poverty is no masquerade for a growing number of older women--especially those without a mate or spouse--who experience a high level of financial insecurity. In 2000, 28% of single women aged 65 and older were classified as either "poor" or "near poor," according to Social Security Administration findings as quoted by the Center for Retirement Research (CRR) at Boston College. (See "Old, Female, Poor, Alone," below.) "It's true that couples typically have more economic security than single people, while single males tend to fare better than single females," the group observes.

## Old, Female, Poor, Alone

Almost 30% of non-married women aged 65 and over are considered poor or near-poor, compared to only 8% of married people in the same age group.



Source: U.S. Social Security Administration, 2002

As the population ages, and women continue to outlive their spouses, the ranks of older single women are expanding. Probably the greatest financial challenge facing women today is their tendency to live seven years longer than men, Geiger observes.

"Most of my older women clients are widows, and how long they're going to live is what they worry about most," she says. "The number one issue for women is their longevity."

In fact, few people of either gender are "very confident" about their ability to take care of medical and long-term-care expenses in retirement, according to a recent study on retirement confidence sponsored by the Employee Benefit Research Institute (EBRI). Women, however, expressed less confidence than men did.

At a time when employers are liberally slashing benefits and the future of Medicare and Social Security is anyone's guess, the picture for older women does look rather bleak. The silver lining for planners, however, is that they can help these clients in a demonstrable way.

A February 2004 EBRI report cites a laundry list of evidence showing why the nation's females are in such a bind: Women typically work for fewer years because they tend to exit the workforce at some point to care for children or family members. Women also make lower wages (\$29,680 on average) than men (\$38,884). They have longer average life expectancies

and require greater aggregate retirement income than men do. In addition, women have greater physical limitations in old age than men, including problems walking, climbing stairs, stooping, and kneeling.

The tendency to leave the workforce for long periods means women end up with breaks in service that can wreak havoc on defined benefit pension plans and reduce their 401(k) earnings. Labor Department data from 1996 shows that 32% of retired women had a defined benefit pension, compared with 55% of men, and their average benefit was only half that of their male counterparts.

From a purely financial perspective, the challenge for older women is staggering. If Social Security benefits are cut further to solve funding shortfalls, it will hurt women more, the CRR suggests, since Social Security provides more replacement income for low earners than high earners, "and women on average are low earners."

In light of such facts, it's no surprise that "many women have the bag lady fear," says Cary Carbonaro, a CFP and president of Family Financial Research in Clermont, Fla. "I do, too," the planner says. One client, a 67-year-old professional woman, has yet to leave the workforce even though she's making "tons [of money] on a portfolio that she hasn't touched. She's worried that she is going to live to be 100," Carbonaro explains. "We all want to be able to feather our nests with money."

Planners mention various strategies that are designed to help their female clients. Most important is encouraging them to start saving as early as possible and to spend wisely. Of all the working women Geiger counsels in her practice, the ones who are determined to save for a rainy day and to live frugally--driving older cars and shunning high-priced, trendy clothes--often become millionaires by age 60, she says.

Geiger is also a cheerleader for long-term-care insurance (LTCI). When her female clients reach 50 or thereabouts, she tells them to bite the bullet and pay the going rate of \$3,000 to \$5,000 a year for 10 years for a paid-in-full, lifetime LTCI program, rather than buy the coverage more slowly as they age. "The risk of not being able to afford LTCI coverage when a client is older is quite high," Geiger says.

And the planner believes the investment is well worth it. "Just think of how much most people spend each year on car insurance, and yet if they total their car, their insurance will pay out maybe \$30,000--if they are lucky," she notes. "Assuming that healthcare cost inflation runs at 5% per year, a woman who is 50 today would be facing annual nursing home costs of \$422,399 when she is 90."

Geiger says her female clients earn anywhere from \$50,000 to \$600,000 per year. They usually can afford the tab for LTCI; when they can't, the planner suggests asking the children to contribute. "Most children would rather pay \$3,000 to \$5,000 now than \$100,000 per year or more when their mother is elderly."

If clients in the female-and-over-50 crowd disregard her recommendation to buy LTCI two years in a row, Geiger asks them to sign a disclosure letter saying they have actively declined to make such a purchase. The planner says she fully expects the children of her older female clients who don't buy LTCI will sue her 20 or 30 years from now when they are hit with nursing home bills of roughly \$100,000 a year or more. "It's a liability issue for me," she explains.

"Nursing home and home healthcare expenses are often the issues that push retirees into income inadequacy," EBRI notes in its report, which points out that even in the "rare" circumstances where people receive employer-sponsored retiree health coverage, it typically doesn't pay for home health or home nursing expenses that can exceed available income.

While LTCI may be a difficult sell, planners say female clients tend to be more successful at financial planning and investing--and more receptive to counseling and education--than their male counterparts are. "Women are more willing to be patient," says Bill Russo, a CFP and

president of Concord Financial Planners in Solon, Ohio. "You can sit down with single women and explain the basics of investing--that you can't just be jumping around chasing performance or the next big investment. That's where lots of mistakes are made."

Russo says that his male clients tend to be less tolerant of market turbulence, while women understand that market timing doesn't work. "They are much more likely to stay the course."

Other planners find women are more interested in learning about the investment process. "The women I work with are more education-focused," says Amy Brown, CFP, ChFC, CLU, and Special Care Planner with Skylight Financial Group in Cleveland. "My meetings with female clients last about 30% to 50% longer than those with couples or single men. My female clients will frequently want to take home materials to read to learn more."

Brown also finds women more apt to take their time. Female prospects who have had a bad experience with their investments tend to be most cautious, the planner observes. "This means that I have to be patient and willing to educate--which isn't a problem."

On the other hand, women who are taking care of children or older relatives also have a tendency to put off planning for their own retirement security, according to Russo. "There's got to be some kind of a balance there," he says.

Single mothers face even bigger challenges. "Their biggest concern is college financing," Russo says, adding that personal retirement planning often is a low priority for them.

As focused as they are on college financing, these clients should know that any investments they set up in the name of their children will significantly reduce the amount of federal financial aid the children can receive. "When you do your federal financial aid forms, 35% of all assets titled in a child's name are considered available for school," versus just 5.6% of parents' assets, Russo says. Also, single mothers will want to keep in mind that any retirement assets or cash values they build up inside of life insurance policies do not show up on FASFA (Free Application for Federal Student Aid) statements--another good reason to sock away money in an IRA or 401(k). "All parents need to realize they can get loans and assistance to finance a college education, but not to finance their retirement," Russo says.

One way for single moms to strike a balance between their children's needs and their own is by investing in a Roth IRA, according to Russo. Clients can withdraw funds for qualified college expenses with no tax or penalty for early withdrawal five years after they have established a Roth.

Clients may also take a loan against their 401(k) plans in order to pay for college costs, but they pay back such loans to themselves in after-tax dollars. And if the client leaves the employer without paying back the loan, "the outstanding amount is subject to tax and penalty," Russo adds.

Often the first time many women consult a financial adviser is after they lose their mate, says Linda Shafer, general securities principal with LPL Financial Services and managing member of Linda Shafer & Associates, a Baltimore planning firm. Shafer counsels them not to do anything rash.

For instance, she says that many first-time female investors are searching for lifetime income and therefore can be convinced by brokers to buy annuities offering high first-year bonuses. "Later, these women recognize they are locked into an expensive investment with surrender charges for seven to 12 years."

Clearly, a better strategy might be to buy a no-frills, low-cost annuity. These products rarely have long-term surrender charges, nor do they offer big one-time bonuses, Shafer says.

A reverse home mortgage is another strategy that can be useful, advisers say. With a reverse

mortgage, clients can get regular monthly payments rather than making them, and the loan does not have to be paid off until the owner sells the house, moves, or dies.

"This way, elderly homeowners who are in poor health can use regular payments from the reverse home mortgage to pay for healthcare at home instead of in some government-funded nursing home," Shafer explains. In order to be eligible for most kinds of reverse mortgages, clients must own their homes and be 62 years of age or older.

"The best advice that I can offer to women, particularly those who are traumatized by loss, is not to rush into making any important financial decisions," Shafer says. "When she is emotionally ready, I recommend that a woman meet with her attorney, her accountant, and her financial planner to review current documents, statements, and her financial status. A first-time female investor needs to discuss all of her concerns and ask as many questions as necessary until she understands why she owns what she owns."

Beyond that, financial planners can help ensure their female clients have an emergency fund on hand. Susie Johnston, a CFP at Cherry Hills Investment Advisors in Littleton, Colo., suggests setting aside "anywhere from three to six months of total expenses in liquid assets, so you don't have to use a credit card to live."

One of Johnston's clients is a mother of four who got divorced three years ago. Prior to her divorce, she had never taken care of any money; she had simply handed over her paychecks to her husband, who gave her money to pay for household expenses.

To prepare for the future, this single mom is now selling the home that she lived in during the marriage and purchasing a smaller one. She is putting the maximum into her 401(k) annually, contributing to a Roth IRA each year, and sending a substantial monthly payment to a well-diversified taxable investment account, which also includes a \$19,000 emergency fund.

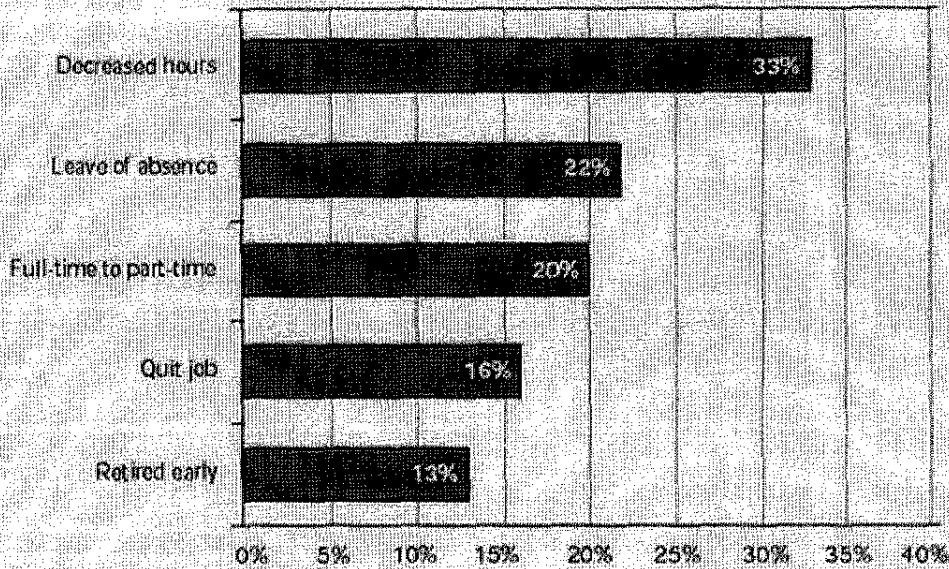
Johnston says she is pursuing the riskiest strategy inside the client's relatively small Roth IRA. "We have that in a large growth, no-load mutual fund, which is a somewhat aggressive investment," the adviser explains.

The client, she adds, "called me several times during the beginning process of buying a new home and putting hers on the market. But she is still doing an excellent job with all of her new financial responsibilities."

Not all clients are this diligent about the need to save more for their old age, of course. Because scenarios for future generations of single, female retirees range from working more years to not having enough money to pay for needed medications or even food, some sage advice from a qualified financial planner could be excellent medicine.

# Stretched Too Thin

Women say caregiving responsibilities have profoundly altered their work schedules.



Source: Metropolitan Life Insurance Co.

Janet Aschkenasy is a freelance business writer in New York. She wrote about using bond ladders in the January issue.

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