# Helping Millennial Women Close the Retirement Savings Gap

Plan sponsors have an opportunity to provide engaging and relevant financial education that resonates with women.

June 2019

### KEY INSIGHTS

- Recent data show that the retirement savings of millennial and baby boomer women continue to lag behind their male peers.
- Millennial women make less money than their male counterparts, but have similar levels of debt. Given this income difference, debt may affect women more harshly.
- Millennials look to their workplace plan as a top source for financial advice. Women place a higher value on advice that's convenient and easy to use.

**Judith Ward, CFP®**
*Senior Financial Planner*

The wage gap and lifetime income gap between men and women presents many challenges for those preparing for retirement.

Recent research from T. Rowe Price[1] finds that while there is slight progress among women saving for retirement, the gap between men's and women's retirement savings persists; a likely follow-through resulting from lower lifetime earnings.

The largest disparity with income and savings is among working baby boomers who are on the cusp of retirement. However, the savings behavior among millennial women is also concerning. Millennial women seem to be on the same trajectory as their boomer counterparts. In a nutshell, lower salaries coupled with lower contribution rates results in lower retirement account balances.

Millennials are the largest generation in the U.S. labor force.[2] While retirement is decades away for them, today's decisions can significantly affect their future financial security.

We have the opportunity to help these women strengthen their financial footing and make more informed decisions. We've included three action steps for plan sponsors and advisors to consider as well as a "Retirement Checklist for Women" (page 7) to share with individuals in the hopes of improving retirement outcomes.

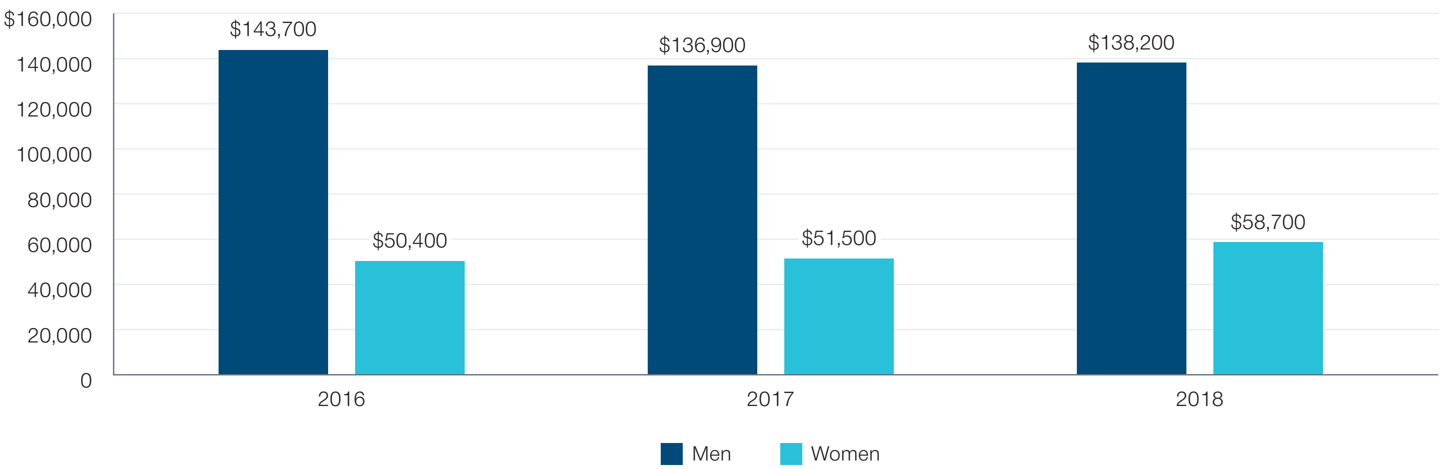
> "In a nutshell, women's lower salaries + lower contribution rates = lower retirement account balances.
>
> — **Judith Ward, CFP®**
> *Senior Financial Planner*

[1] The Retirement Savings and Spending (RSS) study is a nationally representative annual survey of workers ages 21 and above who are either currently participating in a 401(k) plan or eligible to participate and have a plan balance of at least $1,000. Along with 3,000 workers, the 2018 RSS study also includes a sample of 1,000 retirees who had a Rollover IRA or a left-in-plan 401(k) balance.

[2] "Millennials are the largest generation in the U.S. labor force," Pew Research Center, Washington, D.C., April 11, 2018. https://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/

### (Fig. 1) Median 401(k) Balance of Working Baby Boomers

Men and Women, 2016–2018




Source: T. Rowe Price Retirement Savings and Spending (RSS4), 2018.

# 45%

Almost half of women who have been retired 11 years or more are widowed or divorced compared to just 18% of men

## Greatest Disparity: Working Baby Boomer Women

On average, women live longer than men. At some point in retirement, women may be solely responsible for their finances—whether by choice or not. This underscores the need to engage with the household finances, investments, and retirement planning throughout their lives.

Women need to consider, however, the possibility of a financial disruption. Our survey found that within the first 5 to 10 years of retirement, one-third of women (33%) were either widowed or divorced, compared to 17% of men. After 11 years of retirement, the number of widowed or divorced women increased to 45% while the number of men who were widowed or divorced barely changed (18%).

We found that working baby boomer women are contributing less to their 401(k)s than men—a median of 7% compared with 10% for men. Lower salaries, along with contributing less, resulted in a median 401(k) account balance of $58,700 compared with $138,200 for similarly aged boomer men.

There may be many reasons for this disparity that accumulates over the span of women's careers. Data from Pew Research Center finds that more women (40%) than men (24%) report taking "significant" time off to care for children or family members.[3] Time out of the workforce or adjusting careers for caregiving may result in lower earnings over time and a lost opportunity to save. When planning for retirement, this difference may not be as problematic as it might seem if there is adequate household income to allocate to retirement savings.

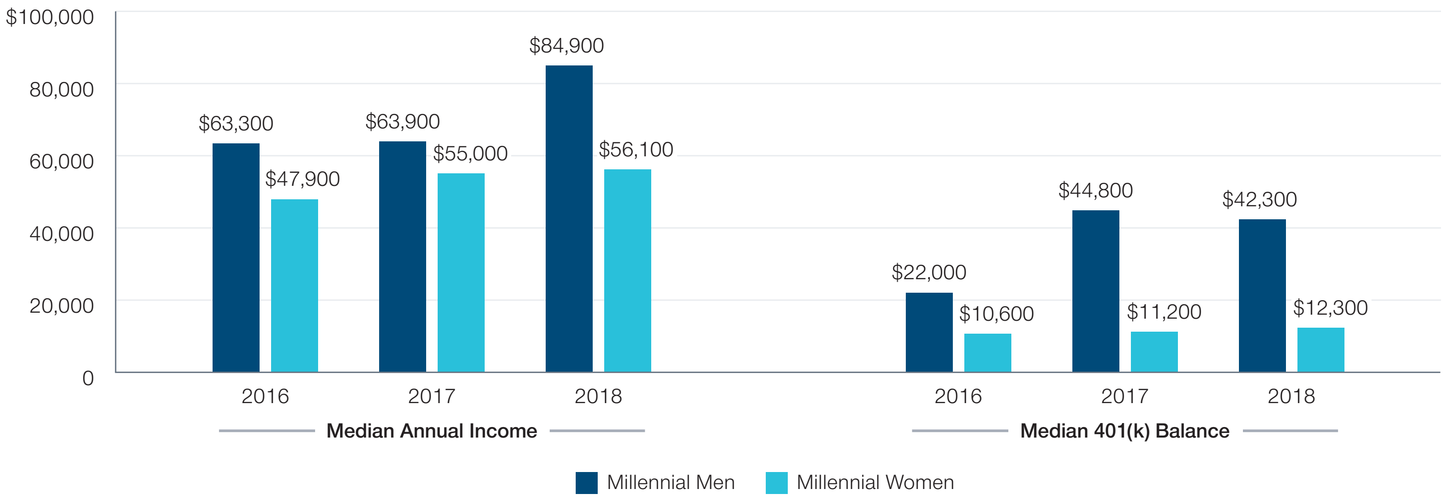
## The Gap Between Men's and Women's Finances Emerges Early

Similar to past trends, our study found that millennial women make less money than their male counterparts—a median annual income almost $30,000 less than the median for men as seen in Figure 2.

[3] "On Pay Gap, Millennial Women Near Parity," Pew Research Center, Washington D.C., December 11, 2013. https://www.pewsocialtrends.org/2013/12/11/on-pay-gap-millennial-women-near-parity-for-now/

### (Fig. 2) Income and 401(k) Balance of Millennials

Men and Women, 2016–2018




Source: T. Rowe Price Retirement Savings and Spending (RSS4), 2018.

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> **— Judith Ward, CFP®**
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Millennial women are also contributing to their 401(k)s at a lower rate (5%) than millennial men (8%). As a result, the 401(k) balance lags behind.

## Key Differences Between Women and Men

Beyond the 401(k) plan, our study uncovered other differences between men and women that may affect their financial futures.

### Career Choice

Among our respondents, millennials were the most educated generation. Over 53% of men and 44% of women reported having at least a college degree. Career choice may be one factor responsible for the income difference between men and women.

Our study found:

- More women—roughly three times the number of men—were employed in the health care and social assistance field where the average annual salary is $45,655.[4]
- In contrast, men were twice as likely to work in the information industry, where the average annual salary is $72,640.[4]

### The Debt Dilemma

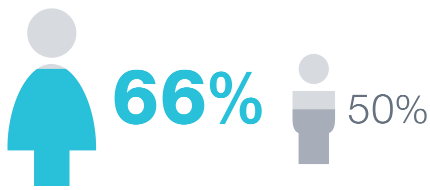
Given the income difference between millennial men and women, debt levels may affect women more harshly even though both had similar types of debt and outstanding balances.

- Three-quarters of millennials had credit card debt. The median outstanding credit card balance is approximately $3,000.
- Nearly half of millennials had a car loan. The median outstanding balance is approximately $12,000 for men and $13,000 for women.

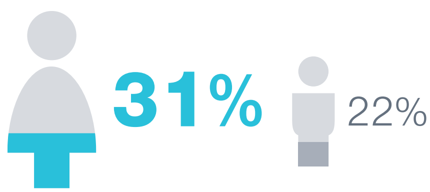
[4] Bureau of Labor Statistics, U.S. Department of Labor, Current Employment Statistics (National), on the Internet at https://www.bls.gov/web/empsit/cesbmart.htm#Overview (visited April 2019).

## Women have more difficulty contributing:

**"I am contributing all I can afford"**

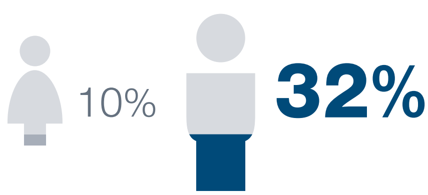



**"I'm paying back debt other than student loans"**




## More men are saving outside the plan:

**"I'm saving for retirement through other vehicles"**




- Almost one-third of millennials have student loans. The median outstanding balance is around $17,500 for men and $15,600 for women.

Not surprisingly, a higher debt to income ratio may become a barrier to saving for women.

When workers were asked why they were contributing less than recommended to their workplace plan, nearly two-thirds of women said they were contributing all they could afford. Additional debt beyond student loans prevented nearly one-third of women from saving more.

On the contrary, one-third of men reported not saving more in a workplace plan because they are saving for retirement through other vehicles.

### Emergency Planning

A key element of financial security is being able to deal with the unexpected. For the very reasons that women aren't saving for retirement, they also reported that they have less resources to deal with financial shocks. After credit cards, single women reported at a higher level than single men that they would rely on financial help from family and friends.

The good news is that nearly one-third of all men and women (either single or married) had an account established for emergencies with another 20% mentally earmarking funds for that purpose. Unfortunately, about half of men and women said they would need to rely on credit cards if they were faced with an expense that required more cash than they had available.

Interestingly, twice the number of single men than women said they would be able to pay for an expense from after-tax personal savings.

## Opportunities for Financial Education

How can financial institutions help break the cycle of low savings rates among women, particularly millennials? Education can play an important part.

For example, T. Rowe Price's research revealed that one in five millennial women admitted that they weren't sure what percentage of their income they should save for retirement. That guidance, provided by an advisor or 401(k) provider, could help shape future savings behavior.

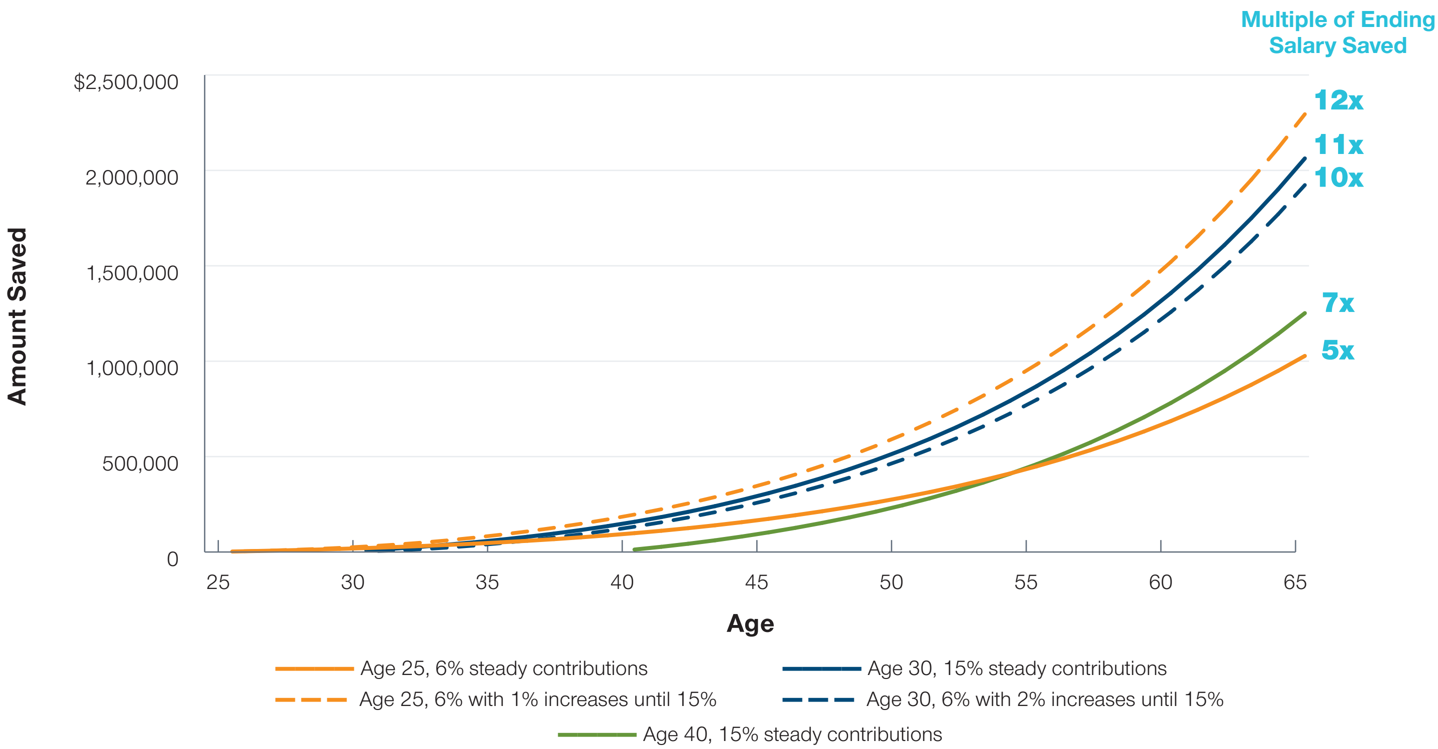
Millennials are seeking advice and support from many sources to help them achieve financial goals. Here are three thoughts as to how we can prepare all workers—not just women—for retirement.

1. **Be firm in a recommended savings amount.** T. Rowe Price recommends that individuals save 15% of their household income (including any employer contributions) for retirement. It may be difficult for many workers to achieve that savings rate immediately and that's OK. Figure 3 shows how starting at a lower 6% deferral rate, and increasing contributions by 2% annually, can result in almost the same amount of savings as a 15% deferral.

   A 30-year-old saving 15% over the horizon may have 11 times her final salary saved by age 65. At the same time, a 30-year-old saving 6% of salary and increasing that amount 2% each year to 15% may still have about 10 times her final salary at age 65. The earlier an individual starts, even at a lower amount with incremental increases over time, can make a difference.

## (Fig. 3) The Importance of Saving Early For Retirement

There is a benefit to gradually increasing contributions over time




Assumptions: Examples beginning at age 25 assume a beginning salary of $40,000 escalated 5% a year to age 45 then 3% a year to age 65. Examples beginning at age 30 assume a beginning salary of $50,000 escalated 5% a year to age 45 then 3% a year to age 65. Example beginning at age 40 assumes a beginning salary of $80,000 escalated 5% a year to age 45 then 3% a year to age 65. Annual rate of return is 7%. All savings are assumed tax-deferred. Multiple of ending salary saved divides final ending portfolio balance by ending salary at age 65.

2. **Emphasize that a retirement plan's default deferral rate is a starting point—not a final destination—when it comes to saving.** A default deferral rate can be a powerful, and possibly, unintentional anchor. An employee may assume a default deferral rate is adequate simply because the employer chose it. Additionally, if an individual is auto-enrolled into a 401(k) plan, she may not even know how much she is contributing—much less what the company is adding. Finding techniques to engage workers and increase awareness around plan features can be an easy win.

Employers are starting to realize this and are increasing their default deferral rate to a higher percentage. According to T. Rowe Price Defined Contribution Plan Data, 2017 was the first year that a 6% or higher deferral surpassed a 3% deferral as the preferred default rate.[5] Additionally, for the second straight year, more plans adopted the opt-out method to automatically increase deferral rates. With this method, adoption rates are 67% versus just 12% when workers have to choose to enroll in this service.[5]

[5] Reference Point. T. Rowe Price Retirement Plan Services, Inc., retirement plans (401(k) and 457 plans), consisting of 657 plans and over 1.8 million participants as of December 31, 2018.

## Women prefer financial advice that is

Easy to use

Fits into their schedule

Has alerts, motivation to stay on track

Each employer's plan is different: from the auto-features they choose to offer, to the percent they choose to match, to vesting schedules, for example. Recent data from the Employee Benefit Research Institute finds that workers spend a median of five years at their jobs.[6] Changing jobs may reset any progress made in increasing savings rates if individuals are auto-enrolled and not aware of their default deferral rate. For this reason, as individuals enter a plan, it is important for plan sponsors to assist them in gaining a thorough understanding of the plan's features.

3. **When it comes to education and advice, it's all in the delivery.** Our study found that 64% of all workers rely on the company that manages their retirement plan for financial advice and support. This includes topics beyond retirement saving such as investment selection, building an emergency fund, and managing debt. Of those workers, 68% of millennials rely on their company plan first, with friends, family, and coworkers a close second. The good news: Plan sponsors, advisors, and recordkeepers have a receptive audience. But is their message resonating?

When it comes to delivering advice, both men and women cited ease of use as their top attribute. Women cited ease of use at a much higher rate than men (63% to 50%). Women also placed a high value on advice that could fit in to their schedule, followed by receiving alerts and motivation to stay on track. For women, convenience of advice outweighs tailored or personalized advice.

Women do face unique challenges when saving for retirement and achieving financial freedom. They still seem to be starting from behind with a longer race to run.

Supplementing workplace plan design with general financial guidance that's engaging, convenient, and fits into their busy schedule, may help them make better financial decisions today that can lead to a more secure retirement tomorrow.

### ABOUT OUR STUDY

T. Rowe Price engaged NMG Consulting to conduct a national study of 3,005 adults aged 21 and older who have never retired and are currently contributing to a 401(k) plan or are eligible to contribute and have a balance of at least $1,000. We surveyed an additional 1,005 who have retired with a Rollover IRA or left a balance in their 401(k) balance plan. The online survey was conducted from July 24, 2018, to August 14, 2018. This is the fourth in a series of participant surveys, and data from prior surveys is used in this report for comparison purposes.

[6] Copeland, Craig. "Trends in Employee Tenure, 1983–2018." EBRI Brief, No. 474. (Employee Benefit Research Institute, February 28, 2019).

# Retirement Checklist for Women

There are some small steps everyone can take toward improving their finances. Being more intentional about earnings and savings over time can help position us for a more secure retirement.

**Buckle down and budget.** A budget, or spending plan, can provide a framework to track your expenses and accommodate your savings goals. Once you understand how you're spending your money, then you can find opportunities to reduce expenses and increase your retirement savings. There are apps and other resources that can help make this easier for you—or, use an old-fashioned spreadsheet if that's more your style.

**Ditch the debt—well, some of it.** If debt is getting in the way of you being able to save, target the real culprit first—high-interest credit card debt. Keep making regular payments on lower-interest debt such as student loans or your mortgage. Once that debt is paid off, then readdress your savings goals.

**Have money on the side.** Start an emergency fund with $1,000 now, then work to an amount that can cover three to six months of expenses. Use this money to pay off an unexpected expense or get through a period of uncertainty without having to tap credit cards or raid your retirement savings. Keep the money in an account where it can be easily accessed. Having money on the side also gives you the freedom and flexibility to make changes in your life.

**Pay yourself first.** If you have access to a workplace retirement plan, aim to save 15% of your salary, including any employer match. If 15% is challenging, start at 6% and increase your contribution by two percentage points each year. Plans that offer automatic increases can make upping your contribution each year a simple step. At a minimum, take advantage of any available company match. If you don't have a workplace retirement plan, consider a Traditional or Roth IRA.

**Get comfortable with money matters.** Educate yourself so you can be more knowledgeable about your finances and investments. Tune in to podcasts, find a favorite blogger, or choose a book on finances to get started. Retirement calculators are another great resource. There are plenty of free tools online that can help you track your retirement progress. You may not have to look further than your own employer for resources that can help you become financially fit.

**If married or partnered:**

**Agree on shared financial objectives and how to achieve them.** Figure out how you will work together. Understanding each other's financial position and money habits can help you better plan as a household. If one spouse is a saver and the other is a spender, for example, compromise will be key. It may help to automate savings where possible so there's not the temptation to spend. You can budget for a little "play" money and agree that most purchases, especially big-ticket items, will be shared decisions.

**Make saving and planning for retirement a shared priority.** While retirement accounts are individualized by nature, it's important to have a mutual vision for retirement and plan savings goals as a household. Take full advantage of any workplace retirement plans. If there is a primary earner or only one spouse has access to a workplace plan, the role of saving may fall primarily to one spouse. Those savings are earmarked for your future as a couple. It's OK to check with your spouse about what they contribute to their retirement accounts. You're not being nosy, it's your retirement, too.

**Prepare for life changes.** For many couples, starting a family requires sacrifice and the need for flexibility. Women are more likely to take time out of the workforce or alter their careers at this time—though there's evidence this may be becoming more of a shared responsibility. If leaving the workforce, you can keep a foot in the door with part-time, contractual, or consulting work. Continue to network and keep your skills sharp. Keep up with your retirement savings and consider a spousal IRA if you are relying on your partner's income for the household.

**Visualize retirement.** When retirement is around the corner, it's important for you and your partner to start visualizing your retirement together and share an understanding of the household's full financial picture. Consider all potential sources of retirement income, especially Social Security. It's important to coordinate when to start taking benefits to maximize the amount for a surviving spouse. If working with an advisor, be present in those conversations and make sure he or she is helping to meet your needs.

**Important Information**

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