Managing Your Career

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Anna Rappaport
Founder, Anna Rappaport Consulting

Nevenka Vrdoljak
Chief Investment Office

Women's retirement security may come from a combination of Social Security, employee benefits and personal savings. Women face unique challenges that require careful planning through out life. Education lays the foundation for career choices. Career choices are extremely important in building financial security because pay and benefits vary greatly by job. Individuals are much more likely to save when they have an employer-sponsored plan that encourages saving in a tax-advantaged retirement vehicle. This brief deals with early-, mid- and late-career choices, challenges and opportunities that women face. Women's financial security can also come from the employment history of spouses. But a word of caution is in order—many married women are no longer with the same spouse in retirement.[1]

EARLY-CAREER ISSUES

Today's young women are starting their careers better educated than their male counterparts. In 2016, 39.5 percent of women ages 25-29 had college degrees, compared to 32.7 percent of men.[2] in 2016, women ages 25–34 were earning 89 percent of what men in that age group were earning.[3] Below we consider the issues faced early in one's career, and their financial implications.

Job choices matter. Job choices made early in life may seem irrelevant to retirement security. Retirement is still perhaps 30 or 40 years away. However, job choices matter. One's first job may establish a path or access to benefits. Teachers or nurses, for example, may stay in their jobs their entire careers. Public school teachers often have very good retirement benefits, particularly if they teach for several decades. In contrast, private school teachers may have much lower compensation and fewer or not as extensive benefits. Nurses have access to a range of jobs, some of which provide very good benefits. While some teachers and nurses move on to different jobs, others do not.

Education makes a significant difference in the career choices available. Career choices start as early as your decision on which college to attend. College costs vary widely by type of school.[4] If college costs will create a large student debt burden, they can

Women continue to earn less than men in the workplace.

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Women make **$0.81** *for every* **$1.00** *that a man earns.*[5]

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[1] This brief deals with a woman's benefits from her own employment only, as opposed to her spouse's earnings, or inherited assets.

[2] National Center for Education Statistics, Table 104.20, https://nces.ed.gov/ programs/digest/d16/tables/dt16_104.20. asp.

[3] Bureau of Labor Statistics, https://www. bls.gov/opub/ted/2017/womens-and-mens-earnings-by-age-in-2016.htm.

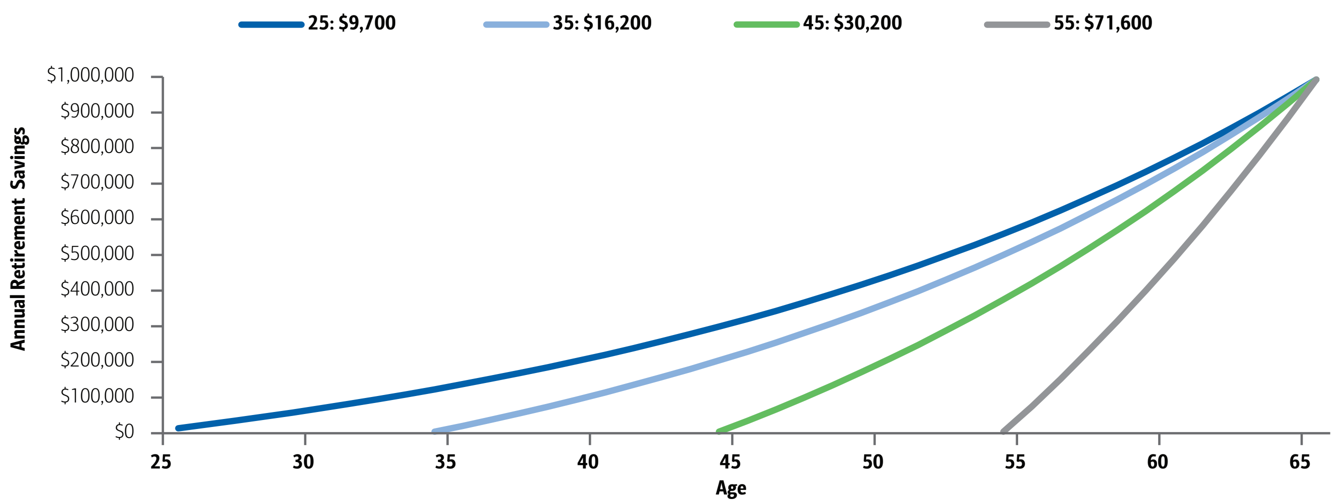
[4] According to the National Center for Education Statistics, the estimated average annual cost of undergraduate tuition, fees, room, and board for the 2016–17 academic year was $23,700 at public institutions and $48,900 at private nonprofit institutions.

[5] U.S. Department of Labor, https://www.bls.gov/cps/cpsaat39.htm. Accessed, February 2019.

The longer you delay saving for retirement, the more difficult it becomes

Exhibit 1: Annual retirement savings to reach $1 million by age 65

Olivia's goal is to have $1 million in retirement savings by age 65. If Olivia were to start saving at age 25, she would need to save $9,700 annually. If she were to wait to age 35, that number would increase to $16,200. Waiting to age 45 would increase the amount even further, to $30,200, and at age 55 she would need $71,600. The chart shows the longer you delay saving for retirement, the more difficult it becomes.



Note: Assumes a hypothetical annual rate of return of 4%. The analysis is on a pre-tax basis. Figures rounded to the nearest $100.
Source: Chief Investment Office.

weigh on personal finances for a long time. It is important to be thoughtful about student debt and choices matter and entering into large amount of debt can create decades of time spent paying back.

Saving early is critical. Savings can help increase a woman's chances of having enough money to last through her retirement years. Dollars saved early are especially valuable because they generate investment earnings over a long period. The power of saving early is shown in Exhibit 1.[6]

Making the most of your retirement benefits. If your employer has a defined contribution plan, like a 401(k), make sure you understand it, then decide how much to contribute to it and how to invest it. Employer matching contributions are essentially free money that you don't want to leave on the table. So make it a priority to contribute up to the level that gives you the full amount of the employer match available.

Consider the case of Joan. Her employer match is 5% ($1 for $1 up to 5%). Her annual gross pay is $40,000, so if she contributes $2,000 (5% of gross pay), she will receive a $2,000 employer contribution. If Joan contributes only $1,600 (4% of gross pay), she will receive only a $1,600 employer contribution, leaving $400 of her employer contribution on the table.

Carefully consider investment options. Researchers frequently explain the gender gap in savings with women's lower willingness to take investment risks in the stock market relative to men.[7] In choosing investments in your retirement plan, it is important to understand the implications of being conservatively invested over a long period of time (see Exhibit 2). Everyone should have an asset allocation strategy aligned to his or her risk tolerance, time horizon and cash flow. However, women in particular should focus on understanding their investment options, as they need the money to last longer.[8]

6 Refer to Anna Rappaport and Nevenka Vrdoljak, **Women and Life-Defining Financial Decisions**, CIO, Winter 2019, for an additional illustrative example of how starting to save for retirement early can make a significant difference over time.

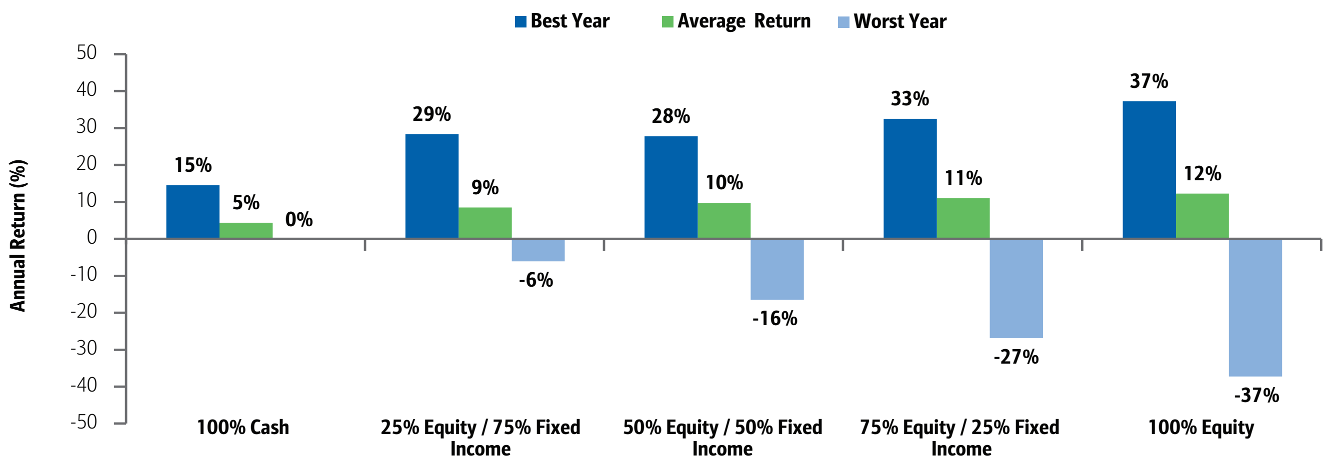
7 Arano, K., C. Parker, and R. Terry, "Gender-Based Risk Aversion and Retirement Asset Allocation," Economic Inquiry, Vol. 48, No. 1 (2010), pp. 147–155.

8 Women tend to live longer than men. Women's life expectancy, conditional on reaching age 65, is 2½ years (or 14%) longer than men's. Refer to: Murphy, B.S. et al. Mortality in the United States. NCHS Data Brief, no. 229, December 2015. http://www.cdc.gov/nchs/data/databriefs/db229.pdf U.S. Census Bureau: https://www.census.gov/population/.

Diversifying your investment choices

Exhibit 2: Historical annual investment returns

This chart shows the best, average and worst annual returns from the last 42 years for different portfolio allocations. For example, it shows that for a portfolio allocated 50% to equity and 50% to fixed income over the last 42 years the best, average and worst annual returns were 28%, 10% and negative 16%, respectively. It also shows the modest potential average return from an all-cash portfolio (5%) versus from a more diversified portfolio (9-11%). It also shows the potential downside of being too aggressively invested, with a worst-year return of -37% from an all-equity portfolio.



Note: Historical returns are based on an analysis of actual investment returns from 1977 to 2018. Results shown are based on indexes and are illustrative; they assume reinvestment of income, no transaction costs or taxes, and the allocation remains constant over time. **Past performance does not guarantee future results.** Index sources: Stocks ¬ S&P 500 Index; Bonds ¬ ICE BofAML U.S. Broad Market Bond Index; Cash ¬ ICE BofAML 3-Month T-Bill Total Return Index. Direct investment cannot be made in an index. Source: Chief Investment Office. As of March 1, 2019.

TIPS

- Research and choose a career that balances your interests with a good chance for job security.
- Understand the long-term potential of the job you are considering.
- Before accepting a job, find out what benefits it includes and weigh that in your decision.
- If you are not covered by an employer-sponsored retirement program, you should save on your own in an Individual Retirement Account (IRA).
- If you take a break from working to raise a family—keep saving to the degree possible.

MID-CAREER ISSUES

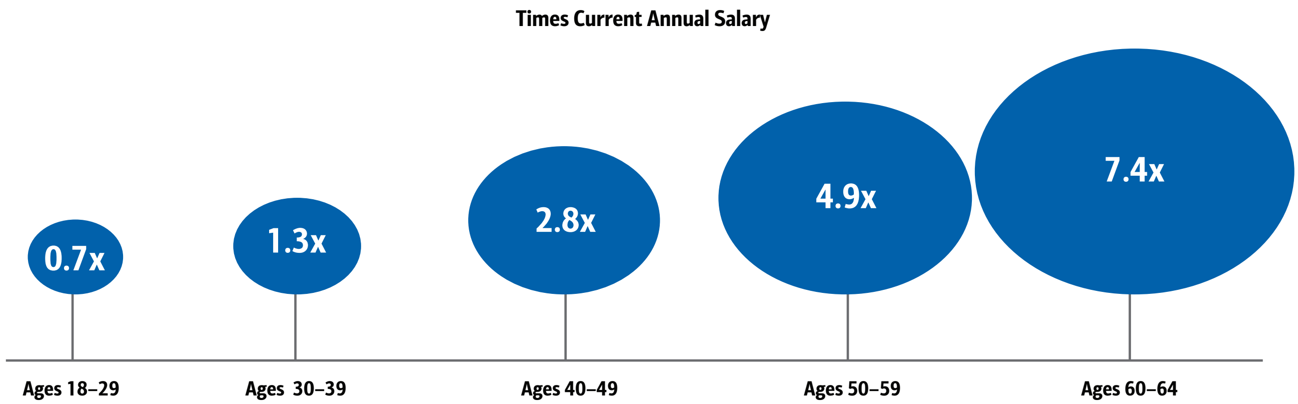
Over time, mid-career women will make a variety of decisions that can affect professional success, short-term responsibilities and long-term financial security.

Paying attention to savings. Having assets to tide you through should you need them will enable you to make a variety of personal and career choices without short-term constraints. It can also enable you to take more risks and hopefully enjoy the upside potential from risk-taking. Savings can also enable you to help family, take time off or reduce your schedule if family needs arise. Exhibit 3 provides estimates of how much you should ideally have saved at various stages in your life.

Saving at different stages of life

Exhibit 3: How much the "best retirement savers and investors" have set aside

Using the ratio of net wealth to income, we have found that the "best retirement savers and investors" – those whose savings are greater than the savings of 90% of people in their age – have saved a total of:



For example, if 36-year-old Jane, gross income of $50,000 a year, wants to see how her savings measure up to the "best retirement savers and investors" in her age group, she would multiply her current salary by 1.3 and compare that to her current savings. Thus, to keep up with the "best retirement savers and investors" in her peer salary group, she would need to have saved $65,000.

Note: Calculations based on the Federal Reserve's latest triennial Survey of Consumer Finances (2016).
Note: Net wealth does not include housing wealth or housing debt. Net wealth equals Financial Assets (FIN) less debt (DEBT) add mortgage debt (NH_MORT) Definition: Financial assets: (FIN) Consists of liquid assets, certificates of deposit, directly held pooled investment funds, stocks, bonds, quasi-liquid assets, savings bonds, whole life insurance, other managed assets, and other financial assets. See the definition of each asset for further details. Debt (DEBT): Includes principal residence debt (mortgages and HELOCs), other lines of credit, debt for other residential property, credit card debt, installment loans and other debt. Mortgage Debt (NH_MORT): Includes all mortgages and home equity loans secured by the primary residence . Income (INCOME): Household income for previous calendar year. Includes wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other support programs provided by the government, pension income and withdrawals from retirement accounts, Does not take into account taxes. Social Security income, alimony and other support payments, and miscellaneous sources of income.

Source: Chief Investment Office.

Responding to a family need. Responding to immediate family needs may mean taking a leave of absence, getting outside help, reducing your work schedule or leaving a job. Studies have shown that among mothers and fathers who have taken a significant amount of time off from work to care for a family member, 31% of women say it hurt their career overall, as opposed to only 18% of men.[9] Evaluation of these decisions requires a focus on the total household situation. But it is important to remember to consider long-term security issues and the impact on retirement savings in the evaluation. It should also be considered that, depending on the type of career chosen and the type of job held, moving to part-time work or leaving a job for some period may mean lower pay and less opportunity in future years. This should be factored into the evaluation.[10]

Capitalizing on opportunities and switching jobs. When changing jobs, benefits at the old job may be lost and replaced by benefits at the new job. If retirement benefits are not vested, accumulated benefits for prior work will be lost. Both pay and benefits at the new job may be better or worse than those at the old job. It may be a mix – improvements in some areas and give-ups in others. (It is good to remember that you probably know about the challenges in the existing environment, but many of the challenges in the new environment may be hidden.) Research carefully before switching jobs. It is probable you will find negatives at your new job.

[9] Pew Research Center, "10 Findings about Women in the Workplace," December 11, 2013.

[10] Refer to Anna Rappaport and Nevenka Vrdoljak, **Financial Security for the Caregiver**, CIO, Winter 2019, for additional examples of how caregiving impacts long-term financial security.

Realizing your dreams and switching career directions. This is like switching jobs, except that it is a bigger change, and it is common to take a significant reduction in pay to make such a change. The switch may enable you to realize your dreams, but it may also fail, so there are financial risks involved. As with any job change, you are starting over. It is important to consider not only salary, but also the impact of the job change on retirement and other employee benefits.

You may want to try starting your own business. While starting a business can have a very big payoff, many new businesses do not grow, or take years to take off, or may not work out. Evaluation of such an opportunity is beyond the scope of this brief, and requires specialized expertise. When thinking about long-term security and starting a business, it is important to consider the employee benefits you will forgo. It is also important not to borrow or use retirement savings as capital for the business.

Keeping options open. Whatever your career choice, it is important to keep your skills up-to-date and to maintain business contacts. Such strategies can support advancement in your current job, while creating opportunities for future jobs and business opportunities. Working retirees who sought new opportunities also pointed to the importance of these strategies.

TIPS

- If you are going to switch jobs, evaluate what you are giving up and what you will gain. In so doing, don't forget about the impact on retirement security and about other employee benefits.
- Don't withdraw and spend retirement savings when making a job switch, starting a business or meeting a family need.
- Maintain savings as a good cushion for emergencies.
- Evaluate the options and implications before moving from full-time to part-time work.
- Keep disability coverage current and safeguard your ability to save for retirement with disability coverage.
- Keep your skills and resume up-to-date so that you will be considered for opportunities in your current or a new environment.

LATE-CAREER ISSUES

Each woman has her own expectations about when to retire and how to stay engaged during retirement. Societal expectations about the ability and desire to work late in life seem to vary greatly by occupation. For example, it is commonly expected that symphony conductors, Supreme Court justices and members of Congress will work to very advanced ages. People in the arts continue to work to advanced ages. Yet many corporations expect people to retire by age 65. According to a study, the average retirement age is 64 for men and 62 for women.[11]

Late-career priorities differ from person to person. Some women focus on what type of legacy they want to leave. Others want to focus on new priorities. Still others are just focused on doing their jobs and supporting themselves and/or their families. Over time, some women are divorced or widowed. Some find that health issues make work more difficult. Other women are trying to decide whether or when to retire. Many find that it is more difficult to find a job after age 50. Married women may be encouraged to retire at the same time as their husbands, or because their husbands are already retired.

Here are a few of the issues that may face late-career women, with some discussion of their long-term security implications:

Deciding when and how to retire. It is important to determine when you will have adequate resources for retirement, when you want to retire and how you want to retire. In planning, however, keep in mind that many people end up retiring before they wanted to because of job loss, ill health, care-giving requirements, or just feeling "pushed." Some retirees timed retirement to buyouts. Society of Actuaries research indicates that people typically retire earlier than they expected to. The 2017 Risks and Process of Retirement Survey focused on how people retired. In that survey, pre-retirees expected to retire or to start retiring from their primary occupation at age 65, but retirees had actually retired or started retiring from their primary occupation at age 60.[12]

Keeping options open. Keeping skills up-to-date and maintaining contacts are important steps in creating good options for re-engagement, or for finding new jobs, rather than retiring, when there is the need to do so.

[11] Alicia H. Munnell, "What is the Average Retirement Age?" Society of Actuaries, Pension Section News, February 2012 Issue, No. 76.

[12] Society of Actuaries, "Risks and Process of Retirement Survey," 2017.

Becoming self-employed or starting a business. A Merrill Lynch AgeWave study showed that 32% of employed retirees are self-employed, compared to 11% of pre-retirees.[13] Self-employment can be a very good choice for some people, but it may be more difficult to make money and get assignments than expected. Some types of self-employment require investment of capital to get started and others do not. It is important not to use assets needed for living expenses in retirement to start a retirement business.

TIPS

- Carefully evaluate the decision about when to retire. Working just two more years may completely change how secure you will be in retirement. It means two more years to save, and earn investment income on savings, and two less years that retirement savings need to last.
- Many people feel forced or pushed into retirement. Have a contingency plan in place.
- If you are retiring before eligibility for Medicare, make sure you have a plan for handling health insurance.
- Do not use assets needed for living expenses in retirement to start a business.
- A Simplified Employee Pension (SEP) or a SIMPLE (Savings Incentive Match Plan for Employees) IRA can be used by self-employed retirees to build up tax-protected retirement savings. These plans have liberal limits.

[13] AgeWave and Bank of America Merrill Lynch, Work in Retirement: Myths and Motivations, 2018.

CONCLUSION

Retirement security depends on having adequate resources. Employer-provided benefits and personal savings both contribute to such resources. Career and job choices are major decisions affecting both your ability to save from and access benefits. While both women and men face issues planning and saving for their futures, women have unique challenges that require careful planning through out life. Long-term financial security issues should be a factor in the choices you make throughout life. It is important to understand the financial consequences of these issues vary by life stage.

RESOURCES

AgeWave and Bank of America Merrill Lynch, “Work in Retirement: Myths and Motivations,” 2018.

Anna Rappaport and Nevenka Vrdoljak, **Women and Life-Defining Financial Decisions** Merrill Lynch Wealth Management, Winter 2019.

Anna Rappaport and Nevenka Vrdoljak, **Financial Security for the Caregiver**, Merrill Lynch Wealth Management, Winter 2019.

Elizabeth F. Fideler, “Women Still at Work: Professionals Over Sixty and On the Job,” Rowman and Littefield Publishers, 2012.

Society of Actuaries, “Understanding and Managing the Risks of Retirement,” 2014.

Society of Actuaries, “Risks and Process of Retirement Survey,” 2017.

Women’s Institute for a Secure Retirement, “What Women Need to Know About Retirement,” 2016.

TOOLS TO HELP

Personal Retirement Calculator: www.merrilledge.com/retirement/personal-retirement-calculator

College Planning Calculator: www.merrilledge.com/college-savings/college-cost-calculator

Anna Rappaport is an internationally recognized expert on the impact of change on retirement systems and workforce issues. Following a 28-year career with Mercer Human Resource Consulting, Anna has established her own firm, specializing in strategies for better retirement systems. She is committed to improving America’s retirement systems, with special focus on women’s retirement security.

Anna has been a leader in the planning, management, and execution of a major research program by the actuarial profession, focused on enhancing retirement security in America. She is a Past President of the Society of Actuaries (1997-98) and has chaired the Society of Actuaries Committee on Post Retirement Needs and Risks for more than 15 years. Anna is a frequent speaker and contributor to business and trade publications, and is the co-author of three books on various retirement issues.

Anna serves on the boards of the Women’s Institute for a Secure Retirement (WISER), and the Pension Research Council. She is a Fellow of the Society of Actuaries, and is a member of the American Academy of Actuaries. Anna holds a master’s in business administration from the University of Chicago.

Nevenka Vrdoljak is a Director and Senior Quantitative Analyst within the Global Portfolio Solutions Group of the Chief Investment Office (CIO) within Global Wealth & Investment Management (GWIM), a division of Bank of America Corporation. In this role, Nevenka is responsible for asset allocation and retirement investing for Merrill Lynch Wealth Management. She had been involved in the development of retirement planning tools, applications and calculators. She published in several peer-reviewed publications such as the Journal of Wealth Management and Journal of Retirement.

Prior to joining Bank of America, Nevenka held analytical roles at Goldman Sachs Asset Management (London) and Deutsche Bank Asset Management (Sydney) in the fixed income, currency and derivatives areas.

Nevenka earned her Bachelor and Master degrees with honors in Economics from the University of New South Wales (Sydney). She also earned her Master degree in Mathematics of Finance from Columbia University.

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