

Foreword by Teresa Heinz Kerry

What Women Need to Know About Retirement

A joint project of the Heinz Family Philanthropies and
The Women's Institute for a Secure Retirement

Edited by Jeffrey R. Lewis and Cindy Hounsell

Foreword

By Teresa Heinz Kerry

There is great beauty, and great valor, in every woman's struggle to leave her mark on this world. We all know the women and the stories: The bravery of a single mother juggling two jobs; the strength of a grandmother who still goes to work every day to help raise her grandchildren and save enough to one day retire; the amazing grace of our aunts and sisters and best friends fighting to overcome breast cancer or another illness. The poise of every young woman who refuses to listen to the ads and institutions that tell her she is only valuable if she is blonde, and thin, and perfect.

We must celebrate these women's stories and what they tell us—that we are not alone, and that we can change the way things are. Today, at the start of the 21st century, when a woman decides to take her finances into her own hands, and to provide for a secure and comfortable and dignified retirement, she is confronted with having to make many complicated choices and many difficult decisions. And it's not surprising, then, for a woman to feel overwhelmed, alone and on her own.

This book and its authors are here to tell all working women two important things. First: You Can Do It. Second: You Are Not Alone. We are here to share the practical wisdom gained from experiences like yours, to help you take control of your life and prepare for your retirement.

We have to help each other prepare so that you, your mother, your sister, your daughter, your best friend, won't end up like so many elderly women today who are living in poverty and despair and disrespect. Many of these same women lived comfortably before retirement. Poverty in our country has a distinctly feminine face. The largest growing segment of our population is poor, elderly women.

We shouldn't let this happen in our lives. We must take charge and have faith that in unity there is strength, in knowledge there is power, and in our action there is a future.

Over the last several decades, women across generations have knocked down barriers in the workforce. Today we are doctors and lawyers and CEOs. We build cars and ships and machines and microchips. We design new products that protect our environment and our health. We tend to the sick and cure diseases. We drive trucks in wars. We are senators and governors. We are waitresses and chefs. And at the end of the day, we are still the caretakers of every home — the glue that keeps things from spinning into chaos. When our children, our spouses, or our parents need care and caregiving, we are called on and we are there.

This is what we have accomplished together after decades of hard work. And this hard work must continue in order to achieve equal pay, pensions, and the chance to be caregivers and not be penalized for it in retirement.

Today, our retirement system still functions as if most of the workers in America were men. But with 69 million women in the workforce—and 10 million of them the sole breadwinners in their families—it is time and past time to bring our retirement policies into the 21st century.

Women must do what we do best: take charge ourselves. The question is how. How do you juggle and try to balance one more thing when you are already so heavily burdened? How do you plan for 30 years down the road when you'd be happy getting through the chaos of the day: getting the kids to school, getting to work, and getting home at night?

I hope this book provides you with some answers. They aren't quick fixes, but they will help you get on a path to economic security. I have reached out to some of the most passionate and dedicated people and asked them to focus on writing clear and comprehensive chapters about different aspects of personal finance and retirement planning.

The financial security of women is something I have cared about for more than a decade. It is very personal. After losing my first husband, John Heinz, in a plane crash in 1991, I felt overwhelmed and helpless. Fortunately, I did not have to worry about financial problems. But I began to think, "What if my circumstances had been different? There are many who feel the way I do but few who are as fortunate. What can be done for those who find hardship behind each door?" That was the beginning of a personal commitment and vision for me.

That is why, a decade ago, I established the Women's Institute for a Secure Retirement ([WISER](#)) as part of the Heinz Family Philanthropies' efforts. We have now reached millions of women with timely and practical information about their financial rights and opportunities. We continue to lead efforts in Washington to change the laws that discriminate against women and saving.

At WISER, we have learned that most people—and most women—simply don't know the facts about women and retirement. For example, women still earn only 77 cents to a full-time working man's dollar.

Two-thirds of all working women earn less than \$30,000 a year in jobs without pensions. Over a lifetime, women will spend 27 years in the workforce, while men will spend almost 40 years. Because women will leave the labor force to have children and care for family members, women retirees (and only the lucky ones at that) will receive about half the pension benefits retired men can count on. This also means a smaller Social Security check for women—who often count on it for the lion's share of their retirement income. Women live longer than men, which means they have to think about extended health care and long-term care costs.

It may seem that the decks are stacked against women. But once we understand and state the obvious differences between men and women when it comes to the workforce and retirement, we can begin to fix the problems they present. You have already started to do something by picking up this book, because this book tells you what you need to know. This book will tell you what you can do to start saving, and be your map for navigating the mazes of pensions, Social Security and Medicare. And it is important to reiterate that it is still important to save, even a little, while you are paying off your student loans.

A lifetime of hard work should bring economic security and the resources to enjoy a retirement earned over many working years.

It's time to close the wage gap and enforce and strengthen anti-discrimination laws. It is time to focus on increasing retirement security for *all* Americans by increasing private savings, pension

stability, and protecting Social Security. And it is time for us to get to work and rid the current system of inequities facing working women.

We all know that women are the chaos managers of our society: juggling children, spouses and work in and out of the home. And I hope that this book will provide you with the tools you need to make that juggling a little easier.

Once you begin to learn and save and work toward your own retirement goals, perhaps you will share your story with someone else you know and care for or care about. These are the stories we all look forward to hearing the most: the ones filled with grace and dignity after a lifetime of work and care. That's the story we all dream of, and together we will write it by taking charge of our own financial destinies.

And, as you read this and have a story to share, please email me (teresa@heinzoffice.org), or write me a letter in care of the Heinz Family Philanthropies, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

Finally, let me thank and applaud the efforts of Cindy Hounsell, the President of WISER, and Jeffrey Lewis, the WISER Board chairman, for bringing this information, at no cost, to all the women, and any enlightened men, who will read it.

Teresa Heinz Kerry

Dedication

In a conversation one day, Teresa Heinz Kerry, the chairman emeritus of the Women's Institute for a Secure Retirement (WISER), challenged WISER staff to compile a book about retirement issues that would provide women with information they could readily use. She believed, as do we, that because women live longer and because they are the majority of the nation's caregivers, that it was especially important for them to know how to take control of their own retirement future—if they don't, no one else will.

WISER began in 1996 because Teresa believed that all women needed access to up-to-date and easy-to-understand information about how to take control of their own financial lives, and to learn what they could do to assure their security in their retirement years.

Teresa has supported our work annually and without her help, encouragement, and vision, WISER could not have grown to bring together the partnerships and organizations that have helped us to reach millions of women. Teresa personifies the definition of a Renaissance woman.

Along the way, award-winning Broadway producer and director, Bill Haber, heard about what we were doing and immediately sent funds to further our work.

To create this book, we brought together a group of experts from across the United States to work with us on this project—a book on women's retirement issues that would be available to all women for free. Like Teresa, these individuals contributed their many diverse talents but all shared in the belief that we can and must make a difference.

There are others who provided help—including all WISER Board members and its Advisory Council. Special appreciation goes to Wendy Button, Maudine Cooper, Vickie Elisa, Mary Murphree, Camille Murphy, Mary Pettigrew, Donna Purchase, Anna Rappaport, Alma Morales Riojas, Margaret Scott, as well as Jenny Backus, Laurel Beedon, Bill Benson, Chris Black, Jeremy Button, Bonnie Coffey, Cheryl Gannon, Frank Gannon, David Koitz, Reina Montes, Bobbi Munson, Kathy Stokes Murray, Grant Oliphant, Martha Patzer, Charles Richardson, and Cliff Shannon.

But, eight individuals stand out because of their individual and collective commitment to helping women get a hand up, not a hand out: Melinda Blinken, Jerry Hodge, Lyle Howland, Ellen Levine, Karen Judd Lewis, David E. Shaw, Billy Tauzin and Elizabeth Vale. Each is a WISER Hero.

A unique group of women stands out because of their courage of conviction, women who reminded me every day why what we are doing is so important: Jessica Catto, Judy Davenport, Lori Ferrell, Peggy Grossman, Coco Kopelman, Dominique Laffont, Wendy Mackenzie, Singer Rankin, Doris Reggie, Linda Smith, Allyn Stewart, Diana Walker, and Wren Wirth.

And Cindy Hounsell (WISER's president) who personifies how one person really can, and does, make a difference every day.

WISER's mission, our goal, our desire is easily stated but hard to achieve: We want to help reduce and ultimately eliminate the poverty of America's older women. Our success is measured by the knowledge that every day, the poor, older women who have for far too long been out of sight and out of mind in America, increasingly are being seen and served and respected.

We have made a good start. We have come far. We still have a long way to go. If you have any questions, comments or ideas, please send me an email at jlewis@heinzoffice.org, or send a letter to Jeffrey R. Lewis, Chairman, Women's Institute for a Secure Retirement, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

And every day we draw inspiration from the memory of the late Senators John Heinz and Patrick Moynihan and Congressman Phil Burton—to whom this book is dedicated.

Jeffrey R. Lewis, Chairman

Chapter Four: Six Things You Need to Know about Social Security

By **Jo Anne B. Barnhart**
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Most workers—about 96 percent of us these days—pay into the Social Security system through federal payroll or self-employment taxes. In return, we receive an income benefit when we retire. Social Security benefits rise with the cost of living, so inflation doesn't shrink their value. Once you begin receiving retirement benefits, you will get them as long as you live, even if (and here's hoping) you're still around at age 110. (Social Security is also a disability program and a family support program if the breadwinner dies or becomes disabled. But in this chapter we'll only be discussing the role it plays in providing retirement income benefits for older Americans.)

After reading this chapter, you'll know:

1. How you earn benefits
2. The types of benefits available
3. When they're available
4. How much you qualify for
5. How taxes affect your benefit
6. How to apply for your benefits

Why is it important for you to know these six things? Because Social Security is the first line of defense against poverty for millions of women. Without Social Security, more than half of the older women alive today would be poor. These women are our grandmothers and mothers, our aunts, and our neighbors. And eventually, we could be those women. Consider knowing these six things about Social Security as *your* line of defense against poverty in retirement.

#1: How You Earn Benefits

You are eligible for a Social Security retirement benefit once you have earned 40 credits, which for most people is after they have worked and contributed to the system for 10 years. Ultimately, your benefit is based on your earnings over 40 work years. For each year you *don't* work in that 40-year period, a zero is entered into the calculation. The lowest five years of your earnings are dropped, and retirement benefit amounts are based on your income averaged over 35 years.

Since Social Security first arrived on the scene (more than 70 years ago) millions of women have not qualified for their own benefit as retired workers because they didn't work enough years. For women who have qualified, their benefits have been low due to the number of years they spent out of the workforce (for example, raising a family or taking care of parents or in-laws) and because women generally earn lower wages. In these cases, Social Security has provided a "spousal benefit" to married and certain divorced women based on their husbands' work histories. The next section covers spousal benefits in detail.

#2: The Types of Retirement Benefits Available

A woman is generally eligible for one of three types of benefits: her own *retired worker benefit* based on her work history; a *spousal benefit* based on her husband's (or former husband's) benefit; or a *survivor benefit*.

Retired Worker Benefits

In theory, Social Security is set up to pay the same retired worker benefits to women and men with *exactly the same work histories and earnings*. But the reality is that women don't typically have the same work histories and earnings as men, so their retired worker benefits are usually lower.

Women have fewer work years that count toward Social Security benefits because they tend to move in and out of the workforce due to family caregiving responsibilities. That said, many women are eligible for a retired worker benefit based on their own work histories. Back in the 1940s, women made up only 12 percent of Social Security beneficiaries receiving a retired worker benefit. Today, 49 percent of retired worker beneficiaries are women—underlining the remarkable growth of women in the labor force over the decades. However, women often work fewer than the 35 years the full benefit is based on. As noted before, a zero is entered into the benefit calculation for each year under 35, which reduces the benefit amount. Women retiring today average *13 years of zeroes*. All of this adds up to a major gender gap in retirement benefits. The average benefit for retired women workers in 2005 was \$867 a month, compared to the average retired worker benefit for men of \$1,130. This is a difference of \$263 a month.

Spousal Benefits

If a married or divorced woman earns a benefit that is less than 50 percent of the amount her spousal benefit would be, or if she has no benefit from her own work years, she is eligible for a spousal benefit. This benefit is generally equal to half of her husband's (or former husband's) worker benefit. Until recently, the spousal benefit was the most common type of benefit received by older women.

A divorced woman is eligible for spousal benefits only if her marriage lasted at least 10 years, she remains unmarried, and is at least age 62. This benefit has no effect on the benefits of a divorced woman's former husband or his current spouse if he remarries.

If you have earned benefits through your own work history as well as through spousal eligibility, you are considered to be "dually entitled." But this doesn't mean you get both benefits added together. If you qualify for more than one benefit, you will receive the benefit amount that is higher.

Survivors Benefits

If your spouse dies and he worked long enough to earn a Social Security retirement benefit, then you and your young children may be eligible for "survivors" benefits. If you don't have children under age 16, you can collect:

- A survivors benefit at your full retirement age (your husband's full retirement benefit);
- A reduced benefit beginning at age 60; or
- A benefit beginning at age 50 if you are disabled.

If you are divorced and your former husband worked long enough to earn a Social Security retirement benefit, then you may be eligible for a survivor’s benefit if your marriage lasted at least 10 years and you are at least age 60 (50 if you are disabled).

If you have been receiving benefits as a survivor and reach retirement age, you can switch to your own retired worker benefit if it is larger. In many cases, you can begin receiving retirement benefits based on your own work history at age 62 and then switch to the higher spousal benefit when you reach full retirement age.

Many women face a harsh reality during their retirement years when their spouses die. Until then, a woman receives half of her husband’s retirement benefit as a spousal benefit, and her husband collects his own retirement benefit. When the husband dies, the wife begins receiving her husband’s benefit, but the spousal benefit goes away. It’s important to recognize this and plan ahead by saving more or purchasing an annuity to help lessen the financial impact of this drop in monthly income.

#3: When You Can Get Benefits

You can start receiving your own full retired worker benefit beginning somewhere between the ages of 65 and 67, depending on when you were born.

| Year of birth | Full retirement age | Percentage reduction in benefits for those retiring at 62 | Yearly percentage increase in benefits for those working beyond full retirement age |
|-----------------|---------------------|---|---|
| 1937 or earlier | 65 | 20.00% | 6.5% |
| 1938 | 65 and 2 months | 20.83 | 6.5 |
| 1939 | 65 and 4 months | 21.67 | 7.0 |
| 1940 | 65 and 6 months | 22.50 | 7.0 |
| 1941 | 65 and 8 months | 23.33 | 7.5 |
| 1942 | 65 and 10 months | 24.17 | 7.5 |
| 1943 to 1954 | 66 | 25.00 | 8.0 |
| 1955 | 66 and 2 months | 25.84 | 8.0 |
| 1956 | 66 and 4 months | 26.66 | 8.0 |
| 1957 | 66 and 6 months | 27.50 | 8.0 |
| 1958 | 66 and 8 months | 28.33 | 8.0 |
| 1959 | 66 and 10 months | 29.17 | 8.0 |
| 1960 and later | 67 | 30.00 | 8.0 |

Source: Social Security Administration

Here's a breakdown of when you can begin receiving Social Security benefits based on the type of benefit you are eligible for:

| Type of Benefit | When You Are Eligible for Payments |
|---------------------------------|---|
| Your own retired worker benefit | <ul style="list-style-type: none"> • Between ages 65 and 67 depending on the year you were born. • Reduced benefits can start at 62. |
| Spousal benefit | <ul style="list-style-type: none"> • Reduced benefits can start at 62. • The same rules apply if you are divorced, as long as your marriage lasted at least 10 years. |
| Survivors benefit | <ul style="list-style-type: none"> • Between ages 65 and 67 depending on the year you were born. • Reduced benefit if you are age 60. • Reduced benefit if you are age 50 and disabled. • Immediately following your husband's death if you have children under age 16. • The same rules apply if you are divorced, as long as your marriage lasted at least 10 years. |

Friends or even financial professionals may advise you to start taking benefits as early as you can, figuring the more years you receive a benefit, the more money you get from the system over time. The catch is that early retirees receive a reduced monthly payment. Take a look at this example:

| | |
|---|------------|
| Jennifer was born in 1950, and she currently earns \$40,000 a year. Using a “quick calculator” on the Social Security Administration Web site (www.ssa.gov), she received the following estimate of her monthly benefit based on when she retires: | |
| Early retirement (age 62) | \$1,080.00 |
| Full retirement age (age 66) | \$1,681.00 |
| Delayed retirement (age 70) | \$2,617.00 |

Some people decide to continue working full-time beyond their full retirement age and delay receiving Social Security. If you decide to do this, you can increase your benefit amount two ways:

- Your benefit is increased by a certain percentage for each month that you do not take benefits from the time you reach full retirement age until either you start taking benefits or you reach age 70. This increase is called a delayed retirement credit (DRC).
- Each additional year you work adds another year of credits. Higher lifetime earnings or additional earnings may result in higher benefits when you do retire and take benefits.

For millions of women who rely heavily on Social Security income, the monthly benefit amount can mean the difference between making ends meet and sliding into poverty. Your own personal situation should guide you in your decision on when to begin receiving benefits. Ask yourself these questions:

- Can you count on a pension, income from retirement savings, or other income during retirement?
- Are you healthy enough to continue working?
- Is the difference between the benefit amounts at different ages significant given your situation?

For most people in good health, it's better to wait at least until full retirement age. If you're like Jennifer, you might want to consider delaying your Social Security benefits for a year or more after you reach full retirement age. Jennifer's benefit will go up by more than \$900 a month if she holds off retiring until age 70.

If you decide to delay your Social Security benefit, you still have to sign up for Medicare health insurance three months before you turn 65. Call (800) 772-1213 to set up a phone appointment or to request an in-person meeting at your local [Social Security office](#).

How Work Affects Your Benefits

If you plan on receiving your Social Security benefits beginning at age 62 and think you may continue to work while receiving them, your earnings could reduce your benefits. If you earn above a set limit, you lose one dollar in Social Security benefits for every two dollars over the limit. The limit changes with the cost of living, but in 2007 it is \$12,960. Let's look at an example of how this plays out:

Lynn turned 62 in January and signed up for Social Security early retirement benefits. She began receiving \$800 a month. However, Lynn kept on working, and her total income from her job will be \$20,480 this year. This puts Lynn over the \$12,960 earnings limit by \$7,500. She loses one dollar for every two dollars over the limit, so in her case Lynn will lose \$3,750 in benefits this year. This drops her monthly benefit down to \$490 from \$800.

In the year you reach full retirement age, your benefit will be cut by one dollar for every three dollars over the earnings limit. But in the years after that, your benefit is no longer reduced due to earnings.

If you start collecting benefits and continue to work beyond full retirement age, your benefit may be higher in the future. Additionally, if your latest years of earnings turn out to be among your highest, your benefits will be adjusted upward to reflect those higher earning years.

#4: How to Find Out What Your Benefits Will Be

Each year, the Social Security Administration sends out benefit estimate statements to workers age 25 or older. You should get it about three months before your birthday. The statement tells you what benefits you can expect to receive at retirement. It also contains your earnings record,

your name, and your date of birth. If any of this information is wrong, you might not get the full benefits you have earned. Check your statement each time you receive it for inaccuracies. If you don't want to wait for your yearly statement, you can order a free statement anytime. Go to the Social Security Administration's Web site, www.ssa.gov, or call (800) 772-1213.

In addition to providing an estimate of your full retirement benefits, the Social Security statement will also provide an estimate of the monthly benefit you would be eligible for at early retirement—age 62—and if you wait until age 70. The statement also estimates the monthly benefit you could be eligible for if you qualify for disability benefits.

If you are married, take a look at your husband's statement, too. It has important information about what survivor benefits you and your children could be eligible for.

#5: How Social Security Benefits Are Taxed

You might not realize that your Social Security benefits may be counted as taxable income in retirement. The IRS looks at your "combined income" to figure this out. "Combined income" is your adjusted gross income, plus non-taxable interest, plus one half of your Social Security benefits.

| If you file federal income taxes as . . . | And earn... | You may pay tax on... |
|---|-------------------------------|-----------------------|
| Married, filing jointly | Between \$34,000 and \$44,000 | 50% of your benefit |
| Married, filing jointly | Over \$44,000 | 85% of your benefit |
| Individual | Between \$25,000 and \$34,000 | 50% of your benefit |
| Individual | Over \$34,000 | 85% of your benefit |

If you are married and file a separate return, you will probably pay taxes on your benefits.

#6: How to Apply for Social Security Benefits

When you are eligible to begin receiving Social Security benefits, you will need to apply for them. They don't start up automatically. The application process is pretty easy. You can call (800) 772-1213 or apply online at www.ssa.gov (if you aren't applying for survivors benefits). Or you can call the 800 number to set up an appointment to apply in person at your local [Social Security office](#).

You may need several documents within reach when you apply, such as your:

- Social Security card
- Birth certificate
- Military discharge papers if you served in the military
- Proof of citizenship or legal status if you weren't born in the United States
- Most recent W-2 tax form

- Bank name and account number, so your check can be directly deposited into your account each month.

If you are applying for benefits based on your spouse's earnings, you'll need his birth certificate and Social Security number, as well as your marriage certificate.

A Woman's Social Security Checklist

- Review your yearly benefit estimate to find out what you're eligible for at different points in time. To request a free estimate or to apply for benefits, go to www.ssa.gov or call 1(800)772-1213.
- Understand that if you divorce, you will only be eligible for spousal benefits if your marriage lasted at least 10 years and you remain unmarried. Read more about Social Security and divorce online at www.ssa.gov.
- If you're married, review your husband's annual benefits estimate together. The longer your husband works, the higher your benefits will be.
- Save as much as you can, and get help making investment decisions if you need it. Social Security is not supposed to be your only source of retirement income, so don't rely on it that way. For help figuring out how much you'll need in retirement, use the free retirement planning calculator at www.wiserwomen.org.
- When planning for your retirement, factor in the taxes you'll have to pay on your benefit if you make above the earnings limit. You can estimate your taxes at www.ssa.gov, under Retirement Planner.
- If you decide to apply for benefits later than age 65, you still have to call and apply for Medicare benefits three months before your 65th birthday. Call (800) 772-1213.
- Pay attention to the Social Security reform debate! We owe it to each other to rally in support of this program that protects so many women from poverty as they age.

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