THE GENDER RETIREMENT GAP: PRESERVING HEALTH, INCOME, AND STANDARD OF LIVING THROUGH EXTENDED RETIREMENT

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Diane Garnick discusses the following topics:
• Understanding innovations and new developments in lifetime income solutions within defined contribution plans
• Using longevity annuities and other instruments to manage "longevity tail risk"
• Assessing and implementing available provisions for long-term care

TOM BOCZAR: Welcome to the Wealth Management Conference in Nashville. I want to thank you for participating in today's session for those who are joining us remotely. My name is Tom Boczar. I'm the CEO of Intelligent Edge Advisors and I'm the moderator for this particular session. Please use the online chat area to connect with other viewers and to enter any questions you'd like to ask the speaker.

Very excited about this next session. It's entitled “The Gender Retirement Gap, Preserving Health, Income, and Standard of Living for Extended Retirement. Also excited to present our next speaker.
Diane Garnick is the managing director and chief income strategist at TIAA, where she is responsible for advancing the strategy, development, and modernization of TIAA’s lifetime income solutions across the firm’s portfolio of products and services.

Prior to joining TIAA, Diane served as global investment strategist at State Street and Invesco. She was also, prior to that, a member of the top-ranked Institutional Investor Equity Derivatives Research Team. She serves on the board of the CFA Institute Research Foundation.

AUDIENCE: Woo-hoo.

TOM BOCZAR: Yes. She has a bachelor’s in accounting from Hofstra and a graduate degree in finance and strategy from the University of Chicago. Let’s welcome Diane Garnick.

DIANE GARNICK: Thank you so much. Thank you, and thank you for being here. I think it’s so important that we spend time focusing on how we can deliver better value to those that we serve. And it’s interesting because that is how I spend every moment that I’m focused on the CFA Research Foundation. So, please note that there are publications outside where we really, really focus on generating three different key components that we deliver to you.

Component number one: we identify really good topics. So, if you look over there and you see some interesting topics in the books, that’s great. So, that’s the first thing that we always want to nail. Number two is kind of simple. We like to translate math into English. So that it’s not only accessible to you, it’s also accessible to your clients.

And number three is the amplification of that very simple message. So, I encourage you to stop by the booth and pick up a booklet. That is what it’s there for.

So, the gender retirement gap — that’s what we’re going to talk about this afternoon. And I have to stop and just frame this discussion in the following way. It ends up, if you think about it — literally, we have a moment right now in history where many, many people are focused on a pivot point in their retirement, in that they need to begin thinking through spending strategies rather than saving strategies.

And I really think that the lack of adequate saving — the poorly designed systems that are in place in so many different companies and institutes throughout the United States — means that the retirement issue is the single largest issue that we will be facing in the 21st century. Yet so much still needs to be done, in spite of the fact that baby boomers are ready. So with that, the way I like to think about it is there are two kinds of people in this world when it comes to retirement.

There are people that have traditional pension plans. You know, people that work 10, 15, 20, 30 years in a company. And at the end of the day, they get a percentage of their income paid to them every
month for the rest of their lives. Lots of people in this room have a pension plan? No. Those traditional pension plans — they just don’t exist. So, that’s person number one.

Person number two I like to think of as people in the “yo-yo” generation. And that stands for “you’re on your own.” And there’s usually a lot more people in the yo-yo generation. But it ends up we have not done such a good job. In fact, I’m going to argue we’re better at DIY-ing in our own homes than we are DIY-ing our pension strategy.

We have not spent a lot of time. And some of today, we talked about behavioral issues. And one of the ways that I like to think about retirement — decision making as a whole is really hard. We ask people to make these complicated decisions. So, decision making ends up being exhausting.

If you were to spend time thinking about every little decision, if you did an analytical evaluation of what you should do, what time should you get out of bed, should you have coffee or juice, should you walk to work — if you went through that, by the time lunch arrived every day, you would need a break. It’d be time for an early afternoon nap. So, what have we done when it comes to pensions?

Well, people have taken the easy way out. Many people just elect into or default into target date funds. And in doing that, what they’re telling you is that they’re not ready to do that type of analytical work. But there’s a problem that we all as a society have recognized and that is, when people do not save for retirement, they are in big trouble.

And if you ask somebody who is not saving for retirement, “How are things going for your retirement?,” they will be the first to tell you, “I’m in big trouble.” They know that, because they’re not doing anything. Now, let’s change this slightly and think about the people who are invested in off-the-shelf target date funds.

When they’re invested in off-the-shelf target date funds and you ask them, “How are you doing for retirement?,” well, it’s pretty likely they’re going to tell you, “Yeah, I’m doing OK. I’m saving. I’m all right. I’m good. Everything’s OK.” And what we’re going to see as we evaluate the gender retirement gap is that that thinking that they are fine is not necessarily true.

So, I want to talk for a minute about what really motivated this research. Well, if you think about what we’re trying to do in retirement, all we’re trying to do is have one standard of living throughout our entire lives that is consistent. Really, we’re just trying to smooth this out. A very interesting statement is that we know when we are young and just starting our careers that our standard of living is going to be volatile.

And what’s the evidence of that? Well, we say to ourselves, ah, I can’t afford this great car, or I can’t afford this wonderful apartment or this big house. But one day it’s going to happen, right? And it’s
very easy to tell ourselves that when we're young and starting our career. But what happens when we're 35, we're 45, and we're making the real money?

We forget to tell ourselves that one day, this check is going to stop coming in. We continue to believe that this upward trajectory is going to come. So, the big fear that society has is when you hit the age of 65 that you will have this step function. In other words, your standard of living is going to drop dramatically. And that's what clients come to you and ask for help on.

So, I want to just point out — and I had to laugh when I came to ending this chart. I said, “OK, 100, it'll just continue on.” And one of my colleagues said, “Oh, you should put infinity.” I said, “This is not that kind of talk.” The actuaries said, “Oh no, no. Maybe you should put a longer — .” I swear [it] will just stop somewhere along the line.

But that standard of living is really important. So, if we think about what people are trying to do, this is a hypothetical income stream. There are ups. There are downs. We all go through this. And notice that it ended at the age of 65. And that’s a hypothetical age, but I wanted to just bring home the point that if we separate this data and begin to customize the data for your client, that’s when you can truly add value.

So, it ends up this is an off-the-shelf average target date fund. But if you separate the data just once by gender, we see a huge difference. So, if I think to myself that I have two people from the exact same university starting at the same job at the same level of pay and the only distinction is that one is a man and one is a woman, it ends up that if the man saves 10% of his income, remarkably, the woman needs to save 18% of her income just to have the same level of wealth at the moment of retirement.

That is a very dramatic difference: 8%, a 1.8 factor. That’s nearly twice as much that the woman needs to save. So, for the rest of this talk, we're going to find out why. Where does this difference stem from? And most importantly, how can you solve it? How can you narrow this gender retirement gap?

So, somewhere along the way as I was doing all of this work, people said, “Oh, come on. It’s not that much — 8% — it’s not that big.” And I thought, “Well, if we start with our two new professionals each earning $100,000 a year, if we think about how much they’re making net of retirement, that’s $8,000.” And then I thought, “They kind of laugh and say $8,000 a year. That’s not a lot.”

And I thought to myself, “Well, that’s not how people think about how much money they make. When I tell somebody I’m going to hire you for $100,000 or you get a job for $100,000, people don’t know how much money they’re making until they get their very first paycheck.” Way too many smiles in the crowd with that one.
Because we don’t think to ourselves, “I’m making $100,000.” We think about it when the paycheck comes in. So, we think about our net pay. So, it ends up just net of retirement savings [that] a woman makes $6,800, whereas the man makes $7,500.

Now, when I first pointed out that’s $667 a month every month during the working career, one of the guys raised their hand and said, “Di, that’s enough money for a really nice car every single month.” And then I had a young lady come up to me after and say, “Oh, that’s enough money for a really nice handbag.” So, I guess it’s all in your perspective, right?

So, it’s interesting, because if you think about it, what we’re really talking about is something very tangible. This is a significant difference. And that’s just based on gender. I think the more you customize a portfolio, the better retirement outcomes you can deliver. And that’s really what we’re here to focus on. People don’t hire you to accumulate wealth. They hire you so that they can have great outcome.

So, intuitively, it may feel like, in this situation, we have the same — that we have some pay equality. But in fact, that is not what’s happening. I think it really masks the difference in terms of what men and women are facing.

So, the first factor is that women do not work as many years in the workforce as men. I think this is really important. So, if you do everything precisely right — and I don’t know anyone or not many people who really do this — but if everything goes precisely right and you get through high school and then you go immediately into college and you do four years of college and you’re done, it seems like there are a lot of people I know who have gone through four years and earned their bachelor’s degree and even fewer who have kids who have gone through four years and earned their bachelor’s degree. So, that dynamic might be changing a little bit.

But four years later, you have your bachelor’s in hand. You do your requisite two years of working in an actual company, getting some work experience. Two years is an MBA. You’re done. You’re 26 years old. And 26 is coincident with the average age that an American woman has her first child.

So, to say that there’s fewer years in the workforce — women begin to think about staying home from the workforce almost from day one. It is a constant problem and it begins very early on in people’s careers. So, I wanted to look at the data and see how many women are stay at home.

Well, it ends up, amongst all mothers, 29% of them are stay-at-home moms. You know what’s kind of remarkable? When I was looking at this, I had to do a pie chart to show you how many, but of course, being the analyst that I am, I also wanted to look at a time series. And it ends up right now, we have our first increase of stay-at-home moms.

So, after so many years of [the number of] stay-at-home moms getting smaller and smaller, it looks like we’re kind of in a range now. So, 29%. The women — we have nearly a third of the moms are
stay-at-home moms. So, immediately, one of the arguments that I got is, Look, that might be true for the overall population, but what about the highly educated? You know, moms that have the opportunity to work or stay home if it’s their option.

So, one of the arguments is, When we talk about these stay-at-home moms — 29% of them — they might be in a situation where if they go to work, they make $10 an hour and the babysitter is charging them $11, so why would they do it? So, I looked at professionals. And of these highly educated opt-out moms, 11% of them are stay at home.

Now, this is a not insignificant number. We still have lots of women that are staying home. And by the way, in case you’re interested, 1 out of every roughly 10 stay-at-home parents happens to be a dad nowadays. Well, almost 1. We could round up to a full 1. Staying at home is not the only career difference that women make.

So, there are all kinds of career decisions that we have to make over time. And if you look at some of the most common — for example, retire from work, fewer hours, significant time off, flat-out quitting, saying I don’t want this promotion — it happens to parents everywhere. But in every one of the biggest cases, women make these decisions at a higher pace than men.

So, why do I care so much about this? It’s because if we think about how we’re going to save, women are not spending as many years in the workforce. Now, lots of women take time off and they have their kids and then they come back. And they come back and they say, “Whoo, I’m back.” But it ends up, staying home, taking a break to raise your children, is the first of a couple of breaks that women typically take.

So, women end up taking twice as many hours out of the workforce than men to take care of eldercare. So, this is the second break that women consistently have. And with the aging population, I think this break is likely to persist.

So, so far what I’ve described to you is an analysis that we’ve done on a line-by-line basis. And I want to encourage you, whenever somebody presents to you facts and it’s the facts that they’re giving you, even if it’s well cited, you should always look to an independent source. So, we did the same thing.

We said, “OK, if we look at our little table here, precisely right means 40 years. Let’s take off time for childcare, let’s take off time for child break. In a full employment environment, that means a man is going to work 39 years and the woman’s only going to work 33 years.” So, that’s the analysis that we did.

And I just didn’t know, really, who can we turn to for a higher authority? So, we went to, of course, the Social Security Administration. We tried to get data from the IRS. They were — well, let’s just say, less forthcoming.
Social Security, in fact, shows that men work 38 years and women work 29 years. Now, I was pretty happy to see this, because I see that the Social Security data is very close on the men’s side. On the woman’s side, notice that we were too generous with the number of years. And I attribute that to a lot of part-time work.

Now, this is a pretty big difference, right? Women work 75% of the years that men work. Now, why do I care so much about this? It’s because when we talk about saving for retirement, we talk about saving a percentage of your pay. Nobody walks around saying, I need to save $14,500 this year. People say, I’m saving 5%, 6%. If you’re really lucky, 15%.

They’re talking about a percentage of their pay. So, if they’re working and in the workforce, that’s great. But they have all of these years where their pay is zero. Right away, we have to account for that. Huge difference. That’s factor number one.

And I know you’re thinking to yourself, “Well, obvious — ladies take time off. We all know they take time off. But don’t worry, Di, because when they go back to work, they’re going to make up for it, right? That’s when they’ll be bringing in the dough.” Not quite. We still face the gender pay gap.

So, it’s interesting, if you look at the gender pay gap — of course, this is another data point where there’s a long time series and lots of literature. Unfortunately, the gender pay gap continues to persist: 78 cents on the dollar.

Now, notice that it’s getting narrower. And people often raise their hand and they go, “Wait a minute. I participate in these diversity and inclusion and equal pay seminars at work. My HR department would never let this happen. You have to understand, I am a professional.”

And here, you’re looking at the overall population. Luckily for me, the Bureau of Labor Statistics put together some professional data. So, I thought, OK. I went back to my office with some calculations. For the overall population, women make 78 cents on the dollar. But for professionals, they’re right, it’s different. Women make 72 cents on the dollar.

Now, it’s very interesting. When I saw this data, I thought, how could that possibly be? It can’t be that people are attending these lectures and not listening. Women would raise their hands immediately. And it’s because of the base rate.

In the overall population, I guess it’s fun and easy to think to yourself, well, the CEOs of Fortune 100 companies represent the top 1% — I don’t know, whatever you want to call it, 50 basis points. They’re just such a small, small component.

Conversely, in the professionals, well, they’re all in there. So, that’s dominated by a lot of high earners who happen not to be women, or as I’m often encouraged to say, yet. So, first, we have fewer
hours in the workforce. And then when women do work, they don’t make as much money. It’s pretty grim if you think about it.

But in spite of those two odds, bravo to the women who do save. Unfortunately, when they save, they face another hurdle. And we talked a little bit about it today, and that is women tend to be more risk averse than men.

Now, this is kind of interesting, because some people think of this as a fact. And other people often raise their hands and they ask me, Why is it that women are more risk averse? So, I think that it makes sense if you think about it in the following way. Imagine that you are 60 years old and retirement is around the corner. I guess that’s easy for many people right off the bat.

If you have $100,000 saved for all of your retirement, how likely are you to take on risks? You can’t afford to lose that. You’re in big trouble. Conversely, if you had a million dollars saved, you would say, ah, OK. You would really be willing to go out there in the risk spectrum.

So, this is a really important point and it helps describe why some women might be more risk averse, but the level of risk aversion is really significant. In fact, women hold about 5% more cash, whereas men tend to hold more bonds and stocks. They’re really much further out there on the risk spectrum.

Now, it’s interesting, because women really need to make sure that they’re not suffering through cash drag. Yet if we look at their portfolios, they’re holding a lot of money markets and cash instruments, which are just not serving them very well, especially when you’re not going to need that money for a very long period of time. So, that level of risk is an area where you can encourage people to just think it through, understand why they’re holding the money.

So, I think one of the things that’s really key here is if we combine all three of these, women work about 75% of the years, women make about 75% of the pay, and women are much more risk averse — that gets us to the 10% saved for a man is equivalent of 18% for the woman just to have the same level of wealth at retirement. Now, there’s a bit of a trick in there, because does our responsibility end when we get to retirement? In other words, if the man and the woman have the same amount of wealth at the moment of retirement, can they have the same standard of living in retirement?

This is a pretty significant question. And it ends up, women spend a lot more money in retirement than men. Because so far, we’ve only talked about the issues that lead to retirement. And now we’re going to talk about the most important part, which is through retirement. From the age of 65 forward. And it might not surprise you that women are spending a lot more. And it’s not because men have suddenly decided they are going to join RetailMeNot and become coupon collectors, right?

There are whole hosts of reasons that women spend a lot more money in retirement. And I want to talk about these in some detail, because it’s an area that people don’t necessarily understand fully.
And it’s where you can truly add value when a participant sits across the table from you and says, “Help me understand how much I need to spend, and how I can spend safely.” So, here’s the first thing that people say. They say, “I understand women have longer life expectancy. That makes sense to me.”

And I looked at the data. And it ends up, men live until 77 and women live until 79. That, my friends, is the most recent data that came out of the US Census Bureau. Now, I want you to notice something on here. Over on the right-hand side, you see how the difference between men and women — they’re getting a little narrower.

It’s funny, because I couldn’t help but look at how many 100-year-olds (centenarians) we have. And I said, “OK, if we scoop them all up in the United States right now, they would literally replace every inhabitant in the town of Youngstown, Iowa.” Very exciting when I found that town name came to me, right?

Conversely, in 2060, if you were to scoop them all up, they would replace every single inhabitant in Las Vegas. It brings a whole new visual to the phrase showgirl, right? I mean, we really have the graying of America, this gray tsunami that’s coming to us right now.

But there’s a big problem, a spending mistake that people make all the time. They say, “I’m 65 years old and I’m going to live to 77. I only need 12, 13 years of income and I’m fine.” And they think that because they look at the most recent data that comes out of the Census Bureau.

But that is not the data that they need to focus in on. That’s not capturing any of the longevity risk. Because this represents longevity at birth. And unfortunately, not everybody makes it to retirement. By the time you make it to retirement, you are working with a completely different set of probabilities, and you need to encourage your clients to stop thinking about longevity at birth and instead focus on longevity at the age of 65 forward.

Once you make it to the age of 65, well, there’s a pretty good chance you’re going to make it to 83 and 85 as a man and woman, respectively. So, it’s really important to frame them in the right way. Because when they look at that data point, they go, “Ah, look, I’m going to make it to 77; I could spend for 15 years.” You’re going to get the call: “I ran out of money. How did that happen?”

So, this is really important. It’s from the age of 65 forward. That’s the data that truly matters. So, women are going to live longer than men — and yes, in both cases, at birth and at 65. So, that’s pretty consistent.

But then, women often say to me, “You know, Di, if I look at this data, it looks like I’m going to be the sole provider to my household for two and a half years. Because that’s how much longer I’m going to live.” And I could see their logic, but there’s a big flaw in the logic. And I hadn’t seen this
written anywhere, so when we wrote this paper, “The Gender Retirement Gap,” we had to create a phrase.

So, we affectionately refer to it as “the marriage age spread.” And if you look at the marriage age spread, something very interesting comes from the data. And what they show is that there is about two and a half years’ difference between a husband and a wife. Now, it’s very easy for me to think about a 25-year-old marrying a 27-year-old. OK, I got it. It’s less easy for me to think about a 55-year-old marrying a 53-year-old.

So, I was surprised that the marriage age spread stayed at around two years, until we got into the data and discovered they’re only measuring first marriages. So, just like life expectancy at birth is not very useful to you, the first marriage is not necessarily the one you need to focus on. It’s the marriage you’re in in retirement.

So, women need to think that not only are they going to live longer than men, they need to add their marriage age spread to the equation to be full sole breadwinners to the house. Now, I promised that I would give you a little bit of an actuarial take on today. I don’t want you to leave home thinking, “Ah, I didn’t get to hear anything about longevity and actuarial risk.” So, we’re going to deliver that right now.

It ends up that the profession decided it’s too complicated for people to think about a whole distribution of how long people will live. So instead, we report a single number. So, how do we determine that single number? Well, it’s easy.

The profession decided that when we get to the 50% mark, we will say, “Aha, that’s the life expectancy.” So, I can’t tell you how many times people pick up the phone and they call me. The men call me and they laugh and they say, “Ha ha ha! It’s my 84th birthday. You’re wrong. I got you.”

But that’s not really a good way to think of it, right? A really efficient way to think of it is, what’s the probability, what’s the distribution? So, over on the right-hand side, we conducted the following study. We said, “What if the man is 65 at the moment of retirement and the wife is 63, because that’s what the data says she’s going to be?” And we started to calculate.

And what we wanted to measure is, If they’re both alive, after the first spouse passes away, how long will the second spouse live? This is a very interesting question. Remember, we have this tail of people that didn’t even make it to 65. And what you’re looking at on the chart now is the tail of how long they will live after they lose their first spouse, after they lose their spouse in retirement. I affectionately think of this chart as the tale of two tails.

Interestingly, about 2% or 3% of them die in the same year. Sadly, I think that’s because they are in accidents together. That is the best explanation. But if you look at this data, what we should be telling
you is that — and by the way, in case it matters to you, about a third of the people who survive are men and two-thirds of them are women. That’s pretty consistent. That hasn’t changed all that much.

But what’s fascinating here is, I should be telling you one data point, right? I should tell you, yeah, 10 years, that’s about 50%. The women live 50% — 50% mark, 10 years, one decade longer as the sole provider.

But if you look out over 20 years plus, 15% live two decades and more. So, women have a very long time, or should forecast that they will be the sole providers to their household for an incredibly long period of time. And I hate to say this, but the truth is there are two times in life that we discover the benefits of cohabitating, of living with someone.

The first is when we’re right out of school and we discover fun things like, oh, I can go out twice a week if I just get four roommates. And of course, the second time is when we become a widow or widower and suddenly the bills jump. So, I want people to think about this chart and make sure that you’re adequately prepared for this moment, because this is the last time that you want to be faced with a scenario where you’re recognizing, I can’t afford the lifestyle I’ve become accustomed to.

So, women live longer. And they’re the sole provider of their household. And in retirement, women have higher health care expenses. So, there’s a great study that was done looking — it’s a longitudinal study, from birth until, well, the end. And what they looked at is all of the expenses from Blue Cross Blue Shield, all the way through Medicare, all the way through the end — and they compared men and women.

And it ends up that women spent around $361,000 in health care costs, whereas men only spent $268,000. So, that’s a pretty significant difference. But remember, I just talked about longevity. So, as a researcher, of course, I looked at this big difference and I said, “OK, I’m going to ask a question. What if men lived as long as women did?”

Now, on one hand, I was very happy that I asked this question, because it makes sense that women will spend more because they will immediately go to more annual physicals. They’ll get their teeth cleaned. They’ll do everything. And by the way, before you ask, when a child is born, they allocated it 50/50, right?

So, this is a pretty big difference. But when I asked that question, I thought, “Oh, this really created the onset for me to have, well, an intimate relationship with Excel.” This was not an easy question to answer. So, I’m happy to tell you that what we have for you today is results.

And what ends up happening is, if men lived as long, they would spend around $305,000 on health care costs. In other words, adjusted longevity only accounts for about 40% of the increased costs. Women spend 18% more on health care.
Now, one of the really interesting things that I hope you have picked up throughout the course of this discussion is that every data point, every issue that we have uncovered, we have supported with empirical analysis. Now, when it comes to this fact, it's very difficult to understand why. But there is an intuitive reason that might resonate with you. We didn't include it in the paper, because it's not empirically proven. But this kind of made a lot of sense.

So, unfortunately, like many of you here, I have spent time in the hospital. And like many people, when my doctor comes to visit me first thing in the morning, I have one very straightforward question, and that is, when can I get out of here? We often ask that before we want to know what are the test results, right? Get me out of here.

So, what happens? Here is what the data does show. If you say to the doctor, you know, the doctor is naturally going to ask, “Who’s at home to take care of you?” And when you say, “Oh, it’s my spouse,” the doctor says, “Really? OK. You’re free. Go. Make an appointment with my office. Someone will be around to check you out.”

Conversely, if your message is something like, “Well, my nephew Luigi is going to come every other Tuesday and check in on me,” the doctor is much more likely to say, “Stay. Stay one more night.” So, it ends up that women — we know empirically that women have longer hospital stays. We just don't know why.

But I suspect that intuition would come into play. So, I think that’s a really important point is that women spend — and it ends up, many of the very expensive diseases happen later on in life. And as we just saw, women have a bigger population of the older generation. When you live longer, you have a lot more expenses — the illnesses that you get are much more expensive.

If we pull all of these together, women are working a fraction of the years, they're not making as much money, and they're much more risk averse, so their money isn't working for them. Plus, women live longer and they have the marriage age spread. They're going to be the sole providers of their household, in some cases for decades — plural. And they spend more money on health care.

Well, that summarizes the gender retirement gap. That’s what we're really focused on. This is where people could really use your insight. So, the natural question that flows from this is, what should we do? How can we help people?

And the answers are pretty straightforward. There are three very easy solutions. And I'm going to walk through each one of them in detail. But to summarize: Women should save more, they should be less afraid of risk, and they should have higher levels of guaranteed lifetime income.
So, let’s talk about these one at a time. Saving more is really important. And we know that here in the United States, there’s a maximum amount of retirement savings. The IRS is always proud to say, we have a maximum retirement savings rate.

Well, let me tell you something confusing about the word maximum. Suppose you save the maximum amount throughout the course of your life. What kind of lifestyle do you think you’re going to live in retirement? Woo-hoo. This is great. But that isn’t necessarily the case.

The maximum is the maximum amount that you are allowed to defer taxes on. This is a tax strategy, this is not a planning strategy. So, for many people, this is not enough, especially for high-income earners. This is just not enough.

Compounding matters if you’re in a situation where your spouse says to you, “I want you to stay home and take care of the kids. Don’t worry, I’ve got your back.” When you’re a stay-at-home parent, the maximum amount that you can save for retirement is $5,500. So, $5,500 and you’re done.

Now, nothing changed about your retirement needs, right? In fact, I kind of laugh that we have a minimum wage and a maximum retirement savings. What kind of message does that send to people? It’s really the entire system is just a tax strategy. And I think it’s important for people to know that.

If I take a moment and think about it, the 401(k) industry and the 403(b) industry are the only industry in the entire world that is literally named after a tax code. Everybody seems to know what it is. So, we defaulted into this system that was never strategically designed. And every year and every few years, we try to make subtle changes. But it’s not necessarily the best strategy or in the best interest of your clients.

So, I think investing early and often is critically important, particularly for women and people who are going to stay home or take work breaks. The next thing that I think is so important is that women can afford higher levels of risk. When you have your clients in standard off-the-shelf target date funds, what you are telling them is that they are average. And for most women, we are anything but average.

In fact, for most participants, you’re anything but average. And the questions that we need to ask people to give them really good financial strategies are precisely the questions that employers cannot ask. Isn’t it ironic? If you ask people today, do you trust your company? and [they]’re under 35, what do you think they’re going to say? No way. I don’t trust them. I know what’s going to happen — first turndown, I’m fired.

They have zero confidence in the company, except when it comes to retirement strategies. Then I know they have my best interest at heart. This is why so many people need your help as professionals. They need you to explain to them that they are anything but average, and a customized portfolio for
their needs can really make a significant difference in the lifestyle they have the opportunity to live — not just now, but throughout the rest of their life.

I think that’s the most important takeaway, right? So, the final thing I want to talk about is higher levels of guaranteed lifetime income. Because expenses are higher and longevity risk is getting longer and longer, I think it’s critically important that you bucket out the necessities.

What are the things that people cannot live without? And potentially, what are the things that they don’t want to live without? And for at least that component of their financial wealth, you need to consider converting them into guaranteed lifetime income.

Now, this is particularly important for women, because housing and health care become a larger component of the household budget as we get older. And a very interesting thing happened along the way of creating lifetime income solutions and being offered through companies. Many years ago — and I’ll just use round numbers; you’ll have to allow me some leeway here — a man and a woman went to their employer. And the employer offered lifetime income.

And they each said, “We have $100,000 and we would like to convert it into guaranteed lifetime income.” Sounds kind of reasonable. And the employer came back and said OK. The man gets — again, round numbers — $1,000 a month and the woman gets $800 a month. Now, given what I just showed you in terms of the difference in longevity risk, these two values were roughly actuarially fair.

Kind of makes sense. You’re going to have to spread one payment over a longer period of time. I’m not sure why the woman did this, but she decided to sue. And sue and sue. And it made its way up to the Supreme Court. And the Supreme Court decided that when lifetime income is offered through a company, gender-neutral tables have to be applied.

This is incredibly important. I’m pushed to say this. I think this is true. I can’t think of any other situation. I think it marks the first time of an economic advantage for women in the workforce — is the moment of retirement. Yet, countless women are offered the opportunity to get lifetime income through their companies, and instead they just take a paycheck at the end and then they go and buy it privately.

They could have $1,000 if they got it through their company. And instead, they’re only getting $800 because they bought it privately. It’s the biggest mistake. That’s why we need to support women to make sure that they get lifetime income in plan through their companies. And it’s exactly why more and more companies are offering in-plan solutions now, especially companies that have a high number of employees that happen to be women or people that will live a long time. Incredibly key to making sure that people can sustain their standard of living throughout all of the years that they’re going to live.
So, those are the three solutions. There are some principles that we used to write all of our research. The first is, it’s always data driven. So, I hope that came through today, minus the hospital example, which I think was kind of fun.

Behavioral economics is all-pervasive from the reports that we write. And I hope that that comes through, because it’s really giving people the right framework, giving them data that they can use — using analogies and stories to help them understand. And then finally, we take a very holistic viewpoint.

Notice that we didn’t talk about just retirement. It’s really from the very first paycheck that you receive until the last one. The first paycheck you earn until the last one you get is a good way to think of it, right? Now, I’m sure that there are lots of Q&A, both from people watching the video and here in the audience. And what I’d like to encourage everybody to do is, if you have questions, never hesitate to reach out. And our email is, very simply, intel@tiaa.org. Thank you.

TOM BOCZAR: We have a lot of good questions. And a number of folks are mentioning, are bringing up points that this is — when you look at groups that are not necessarily average. Can this be applied, for instance, to wealthier people who tend to — it’s proven, they live longer. Why? They go to doctors and they have better health care. Could it be applied to race? Are there other applications that you’ve seen?

DIANE GARNICK: That’s absolutely true. In fact, the more — that’s a great question. The more your population varies from the average American household, the more valuable customized solutions could be.

One of the really important roles that company managers have is setting the qualified default investment option. In other words, when people are automatically enrolled in their pension, what is the investment option that you’re going to give them? So, when that is a customized product to meet the demographics and characteristics of your employees, that’s really when you’re delivering value.

I think the customization is key. And right now, we’re at a point in our history where we have the technology at our fingertips. We have entered the era of mass customization. And I think it’s critically important that we all use it.

TOM BOCZAR: Are there any products today that advisers could use, any products they use today, to help women achieve the — narrow the deficit in the future?

DIANE GARNICK: Yeah, that’s a great question. I think one of the things that women can use today is certainly consider moving higher up the risk spectrum. Lots of people have talked
about creating gender-specific life-cycle funds. In other words, instead of just having a life-cycle fund, [have] a life-cycle man and a life-cycle woman. Makes it kind of simple. I think that’s really important.

And of course, I think if you’re going to — if you know that you are going to allocate into lifetime income when you retire, it makes a lot of sense to think about allocating into lifetime income, especially in a rising-rate environment. Because if you have that guaranteed lifetime income, you won’t lose principal every time rates go up. I think that’s another really important factor for people to consider.

**TOM BOCZAR:** Some of the questions are regarding lifetime income. Very general, you mentioned that some are in plan, some are out of plan. Can you just give us a sense of what type of products you’re talking about?

**DIANE GARNICK:** So, I like to say there are a couple of reasons that people don’t like lifetime income. The number one reason is, it’s complex. And the number two reason is, they don’t like the commission. So, I can tell you that we worked really hard to eliminate the complexity.

And the way I like to think about it is, the complexity is really a matter of the add-on features. So, if you want to have your spouse get some money, if you want to have a child get some money, there are all kinds of add-ons. And if we can explain those very simply to people, I think it takes away the complexity.

The second issue is commissions. And it ends up, if you get your lifetime income through a company, the commissions, generally speaking, are zero. Yet another great reason for companies to offer it, because companies don’t benefit. They don’t stand to collect the same commissions that you would if you were to buy it in a private market.

**TOM BOCZAR:** What about the thought that we’re talking about enhancing income, and that’s fine if you know what the expenses are. But a lot of the unknowns are relating to health care — talking about health care. How do you combine the concept of health care insurance into greater income spending? Is there a balance there?

**DIANE GARNICK:** So, we think there’s a big distinction between the necessities of life and health care. And there are a couple of reasons that I think it’s really important to focus in on this for a moment. First, when I talk about the necessities in life, I’m talking about the very boring stuff, like housing, food, a little entertainment, taxes, taxes, and more taxes.

So, those are the necessities. That tends to get paid out on a very methodical basis. You can know what the level is going to be, with a small increase over time. Hopefully, it stays small. Conversely, in health care, what’s really important is, people spend their money in a very lumpy fashion.
I wouldn’t be surprised if a couple came to me and said, “Oh, we had $12,000 in health care expenses this year and none the next year and $20,000 the following year.” So, I think the liquidity needs and the lumpiness are very different. So, what we encourage people to do is to have two separate buckets — one bucket for the necessities and the next bucket for health care.

And in that way, you can structure the financial products to meet the liquidity needs and economic needs. It doesn’t make any sense to have a check coming in for $1,000 a month if you have a $12,000 procedure that you need to have done right away. So, having access to that health care bucket is really important.

TOM BOCZAR: And again, to that point, a number of questions are, again, bringing up goals-based planning and how all of this ties in. It sounds like you’ve hit the nail on the head — that it’s a big part of it.

DIANE GARNICK: Yeah, I think there’s a subtle but important distinction that you want to make for people. One of the biggest mistakes that people do is they look at their retirement savings and they go, “Woo-hoo, I’m rich.” Because they look at this dollar amount. And what they fail to do is think about how this dollar amount translates into monthly income.

So, people often say to me, “Ah, Social Security is in big trouble. They make a lot of mistakes.” But one of the really important strategic decisions that Social Security made very early on is they tell people how much money they will get per month. They never tell people, you now have $500,000. Instead, they tell people, you will get $1,200 a month. That’s a value that people understand.

So, one of the things that I would really encourage you to do is, the younger your participants are, the more important it is to tell them how much money they get per month. Now, why is it important for the younger people and not those of us who only used to be young? It’s because when you’re younger, you can make savings decisions.

So, if I see I’m saving — at the rate I’m saving right now, I’m only going to have $3,500 a month. But if I increase it just a little bit, I can immediately see, ah, I’m going to get $5,000 a month. That’s great. It’ll have an immediate implication on how much I save.

Conversely, if I wait until the very end, there aren’t enough levers for me to move. So, conveying the amount of monthly income from the very beginning helps give people the right framework to think about how much money they should be saving and whether or not they’re on track to meet their goals.

TOM BOCZAR: What about projecting longevity? I mean, there’s, of course, census forecasts. How accurate have they been in your view, and are there any other tools that perhaps are not readily available that you’re aware of?
DIANE GARNICK: So, we spend a tremendous amount of time at TIAA — and other insurance companies around the world and great universities — focusing on longevity risk. And surely, there are some outside shocks. And many of those outside shocks are incorporated within the models.

For example, advances in health care. People always ask me, right? So, there are all kinds of things that are incorporated in. I think one of the big things that we need to think about when it comes to longevity is, there is some really compelling data that shows us as we get older, our ability to make decisions declines pretty quickly — cognitive decline.

Now, here’s the other thing that the data shows us. The data shows us that as we get older, our performance as investment managers declines pretty rapidly. Every 65-year-old thinks, “Ooh, now I can run my own portfolio.” And every 65-year-old says, “No way is the 85-year-old smart enough to do it.” So, we somehow know that, right? As we get older, our performance drops.

Now, what’s interesting about that is, as we get older, our belief in our ability to manage money increases. This is not a good recipe unless you are in the business of senior fraud.

[laughter]

Another growing statistic. So, I think, put yourself in the situation where you are either going to have to call your kids and say, “Hi, I just fell for a trick and I spoke to the king of” — who knows? some country — “and I lost all of my money. Can I please move into the basement?” I mean, nobody wants to make that call. And fewer people want to get that call.

Now, compare that to the call where you say, “Oh, I just fell for the trick and I lost my monthly income. And next month, I have another check coming my way.” I think there’s a tremendous amount of security that comes through there. In the first case, you’re turning to your spouse, going, “You didn’t need all that space down there anyway.” In the second case, you’re saying, “Let me get you some groceries. It will all be good. And please, stop answering these emails.”

So, I think it’s a world of difference. If you really want to think about longevity risk, think about it for yourself. And inevitably, when I give this talk, people say, “Ah, I’m going to put my mom in lifetime income.” So, I think there’s an intergenerational benefit for all of us to get here.

TOM BOCZAR: In your research, have you accounted for the transfer of wealth from a husband to a wife, and if so, how do you do that?

DIANE GARNICK: People ask me that all the time. It’s the most common question. So, how long has this been a problem that women don’t make as much as men and women live longer? Always. This has always been a problem.
So, if it weren’t for me standing up here saying, “Oh, this is a problem and here are the three solutions. How do we solve this problem for generations?” Well, it’s easy. The man said, what I have is ours. That was the solution. So, that was the wealth transfer between spouses.

So, what I think is incredibly important is, today we have more and more independent women. We have women who believe they are completely independent, even if they’re married. Women who are just as good professionally as men. Women who are outearning men.

And in that case, I think you need to do one of two things. You either have to have the explicit conversation of you will take care of me and I will take care of you, or you need to adjust and implement these three changes. But that interspousal or family wealth transfer has happened all along. We either have to acknowledge that that’s going to continue — and we need it to continue — or make some changes. But we can’t claim our independence and then secretly say, “Oh, I’m relying on the wealth transfer.”

TOM BOCZAR: Sort of a technical question. Do you know what percentage of lifetime health expenses are allocated to childbirth expenses? Is that a big piece of it?

DIANE GARNICK: I’m sorry, I don’t know. The paper is cited and I could go back and read it, but I’d rather look it up than guess.

TOM BOCZAR: You know, we’re talking, you mentioned 401(k)s, 403(b)s, industry built on the tax code. And separate and apart from that, some of these tools, if they’re used outside of a plan, probably have deferral benefit and things of that nature. With Trump in office and two competing tax reform plans out there — the House and Trump — is there any risk in your view that some of these techniques will not be available in the form that they are now? Will they have less deferral benefit and tax benefits?

DIANE GARNICK: Look, I think one of the things that’s really important is, there are two or three really important reasons that defined benefit plans are less popular. We always hear the reason that they have gone away is because they’re too expensive, right? Everyone has heard that.

But I don’t think that’s the only reason. I think there’s another reason. And I’ve always said, “If I ever get this right, I will just hang up my hat and say, ‘OK, I’ve done my job.’” So, imagine two people finish from a great university — University of Chicago grads, they’re starting their new jobs.

One guy goes to a company where he has $100,000 a year and a defined contribution plan that he can contribute to. The other guy gets $75,000 a year and a defined benefit plan. So, when he retires, he’s taken care of.
Now, that’s the situation, right? — $100,000 in a DC [defined contribution plan] or $75,000 in a DB [defined benefit plan]. I will rest easy the day one month goes by, these two guys meet, have a drink, celebrate their new jobs, and one guy says, “I make $100,000 a year.” And the next guy says, “I make $100,000 a year, too. I get $75,000 of it now, and $25,000 I’ve lent back to my company.” But they don’t say that.

So, one of the big reasons that defined benefit plans have gone away is because people don’t value them. When do we value them? When we’re 60. Not when we’re getting jobs, right? That’s when we value them. So, I think that’s really important.

So, I think that the defined contribution space is here to stay, but I don’t think the right question is, should we have a DB or should we have a DC? That question is gone. That’s an ancient question.

The right question to ask is, what’s the good hybrid between DB and DC? All “defined benefit” means is you know how much money you’re going to get every month. And all “defined contribution” means is some upside that you can manage if you want. So, it’s some combination of guaranteed lifetime income and investing on your own that can make a big difference.

So, if you think about it, in the DC scheme, people have the opportunity to buy lifetime income and get that security and still do what they want with the rest. So, I think that combination is what people should strive for, for the most important thing: happiness in retirement.

**TOM BOCZAR:** We’re out of time, but we want to thank you so much for being here. It’s a very insightful conversation. Thank you.

[applause]