Strategies to help women build retirement savings at any age

November 2014

MERRILL EDGE
Bank of America Corporation

Retirement investing today isn't a one-size-fits-all proposition — especially for women who must weave longevity, work patterns and financial confidence into their planning strategies.

For the past two decades, American women have been on a remarkable career trajectory, changing their roles in the workplace at a rapid pace. For example, women today:

- Earn more college and graduate degrees than men[1]
- Make up 57% of the professional and technical workforce[2]
- Start their own businesses at a faster rate than men[3]

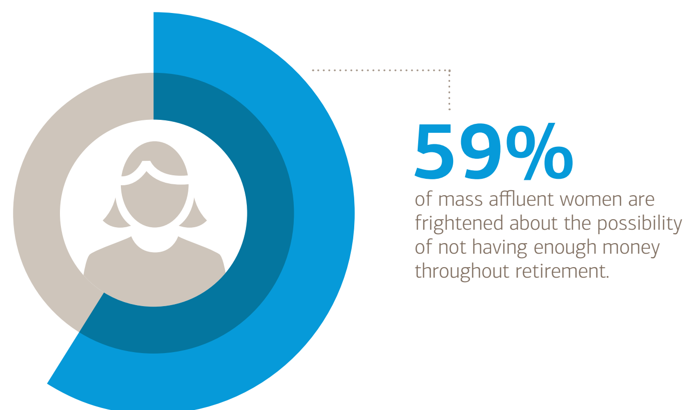
They are also closing the long-standing pay gap, with younger women earning about 93% of what their male colleagues do.[4]

In spite of their economic strides, women report a very real concern about running out of money in retirement. According to the *Merrill Edge® Report: Spring 2014*, 59% of mass affluent women are frightened about the possibility of not having enough money throughout retirement.[5]

That finding comes as no surprise to Debra Greenberg, director, IRA Product Management for Merrill Lynch, who reports that women overall have less saved in 401(k)s than their male counterparts and are more inclined to let short-term expenses like paying for college derail their long-term retirement savings.[6] "Women's educational attainment and economic progress don't always translate into greater retirement readiness," says Greenberg. "We still need to make a commitment to saving and investing for a financially secure retirement by creating plans that work for our lifestyles and income levels."

Real concerns about long-term security

Despite women's considerable accomplishments, many still worry about their long-term financial security.



Source: Merrill Edge® Report: Spring 2014.

Merrill Edge is available through Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S), and consists of the Merrill Edge Advisory Center™ (investment guidance) and self-directed online investing. MLPF&S is a registered broker-dealer, Member SIPC and a wholly owned subsidiary of Bank of America Corporation (BofA).

Investment products offered through MLPF&S and insurance and annuity products offered through Merrill Lynch Life Agency Inc.:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
Are Not Deposits	Are Not Insured by Any Federal Government Agency	Are Not a Condition to Any Banking Service or Activity

Merrill Lynch Life Agency Inc. is a licensed insurance agency and wholly owned subsidiary of BofA.

Banking products are provided by Bank of America, N.A., member FDIC and a wholly owned subsidiary of BofA.

Women's top 3 retirement planning challenges

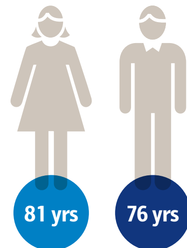
Before developing a retirement savings and investing strategy, you should know about the additional challenges that women face as they plan for retirement, says Greenberg. They include:

1. Longer life spans
2. Unique career and earnings patterns
3. A need for more financial confidence

Read on for a closer look at these challenges and some practical steps for meeting them.

Challenge #1: Planning for a longer life span

Women who want to work toward a more secure retirement face a fundamental challenge: On average, they will live five years longer than men. According to the U.S. Census Bureau, the current life expectancy for a woman is 81 years, compared to 76 years for a man.[7] That means five more years of retirement to finance and health care expenses to manage — all at a time when more than 50% of women will find themselves living alone.[8]



Whether single or married, it's important for women to save and invest as much as they can, to account for their projected longer life spans. Here are practical strategies to help build retirement savings at any age:

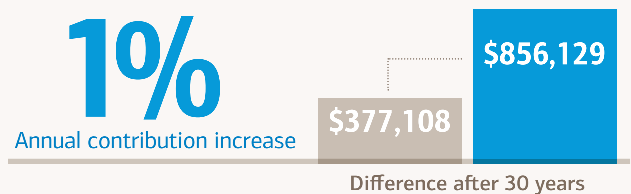
- **Start now to maximize compounding.**
  Save and invest as soon as you can through your employer-sponsored retirement plan (such as a 401(k) or 403(b) account) or with automatic transfers* from your bank or brokerage account into your personal IRA (or a Simplified Employee Pension (SEP-IRA) or SIMPLE IRA if you have your own business). The sooner you start, the more time your contributions have to take advantage of compound interest and reinvested dividends that have the potential to grow substantially over time in a tax-deferred retirement savings account. If you're age 50 or older, you can start making extra "catch-up" contributions beyond the annual limits to your 401(k) and IRA accounts too.

Ramp up your retirement contributions at work

To jump-start your saving and investing, contribute at least enough to take advantage of any matching contributions from your employer. If you can, try to increase your contributions as your earnings increase. Even 1% a year adds up, as the chart below shows. If your plan allows you to sign up for automatic annual increases, you might want to take advantage of that feature too.

How just 1% can make a huge difference

A 35-year-old woman earning $75,000 per year contributes 6% of her salary to her retirement, plus an automatic 1% annual increase up to a threshold of 18%. After 30 years she would have more than $856,000 — an impressive $479,000 more than without the automatic increases.



Source: Results assume annual contributions are made at the beginning of each year and investments earn a 6% annual return. Merrill Lynch, Global Wealth & Retirement Solutions, 2014.

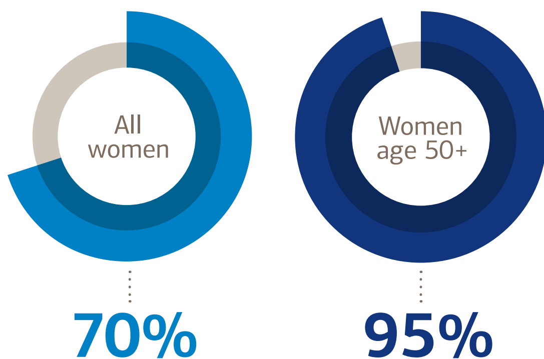
This example is for hypothetical purposes only and is not intended to be representative of past or future performance.

- **Take advantage of unexpected money.**
  If you receive a lump-sum bonus, insurance payout, tax refund, divorce settlement or inheritance, consider putting some of it toward your retirement. For example, you can apply this "extra" money toward regular expenses to offset an increase in your 401(k) contribution at work. Or you might invest some of it in a traditional IRA or a Roth IRA, if you are eligible. And don't forget that "catch-up" contributions allow you to invest even more in these accounts if you are age 50 or older.

- **Try not to sacrifice growth for safety.**
  A 2010 Boston Consulting Group report noted that more than 70% of affluent women favored balanced or conservative investment strategies. For women over age 50, that preference rose to 95%.[9] But being overly conservative with your long-term investments can backfire if your retirement account doesn't have the opportunity to grow and keep up with inflation.

"Women should guard against being too passive in their approach to retirement investing," says Michael Liersch, director of Behavioral Finance, Merrill Lynch. "Increasing their level of involvement and making investment decisions based on their retirement time line and risk tolerance is essential to building a portfolio of retirement investments that is appropriate to each person's unique situation."

Affluent women who favor balanced or conservative investment strategies



Source: Leveling the Playing Field: Upgrading the Wealth Management Experience for Women, The Boston Consulting Group, July 2010.

As Liersch suggests, your individual circumstances — including your age, risk tolerance and need for liquidity (access to your money) — also should be factored into your retirement investing decisions. For example, if you're a young woman with some tolerance for risk and retirement is many years away, you might want to include more stocks or stock funds in your retirement portfolio to add the potential for long-term growth. On the other hand, "if you're closer to retirement, you may want to take some risk off of the table and be more conservative about your investment choices as you focus on meeting essential income needs," he says.

It's also important not to look at stocks and other equity investments as an either/or proposition, where you're "all in or all out," Liersch notes. Even as you move toward more conservative investments near and in retirement, it still may be a good idea to keep a portion of your portfolio in more growth-oriented investments such as stocks to try to keep ahead of inflation and increases in everyday expenses.

For additional peace of mind, set up an emergency fund you can use to meet unexpected short-term expenses and avoid tapping into your retirement savings account.

"Clearly, there are no one-size-fits-all retirement investing solutions. Each woman must find the right asset mix for her specific goals and risk tolerance," says Greenberg.

- **Take care of your health now to save more for — and in — retirement.**

Practicing preventive health care today can lower your health care costs and give you more money to apply to long-term saving for the future. Plus, many preventive health care services such as routine physicals are now covered in full under the Affordable Care Act, which also helps make maintaining health less expensive.

If your company offers a high-deductible health plan,[10] consider contributing to a tax-advantaged health savings account (HSA). Your contributions are 100% tax deductible from your gross income and you pay no federal income tax when you use the money to pay for your health care expenses. (State taxes may still apply.) Anything leftover accumulates for you to use in the future, including in retirement.

- **Consider waiting to collect Social Security.**
If you can delay receiving your Social Security payments by working longer or using income from other sources first (such as your retirement investments, a company or union pension, an inheritance or survivor benefits), your Social Security benefit grows 8% each year until you reach age 70.[11]

Challenge #2: Unique career and earning patterns

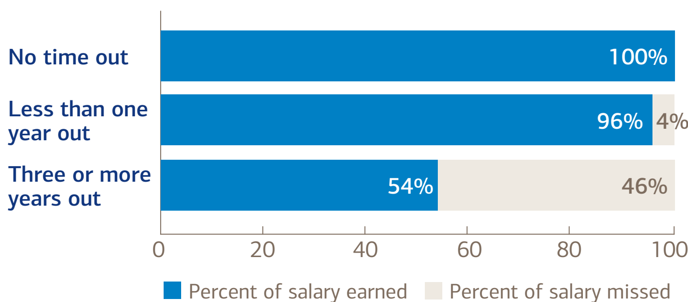
Women often take a different career path than men, leaving the workplace or scaling back their hours to care for their families. Although caregiving responsibilities are changing, women are still three times more likely than men to leave the workforce to care for children or other family members.[12] When they do, they also reduce their future earnings potential and compromise their ability to save for retirement.

Being away from the workforce means missing out on earnings and making do without an employer-sponsored retirement plan as well as company matches and bonuses. Fewer years in the workforce can reduce your future earning power and Social Security benefits.

In their research *Off-Ramps and On-Ramps Revisited*, the Center for Talent Innovation discovered that when a woman voluntarily left the workplace for an extended time to care for a family member, the impact on her earnings over time was substantial. Women on average lost 4% of their earning power when they left the workforce for less than a year. When they stayed out three years or longer, their earning power was reduced by 46%.[13]

Time away hurts earning potential

Leaving the workforce, even for just a short time, reduces earning potential. The loss grows considerably after only a few years.



Source: Center for Talent Innovation, Off-Ramps and On-Ramps Revisited, June 2010.

Given the reality, how can you ensure your decision to leave the workforce doesn't compromise your retirement?

Ways to help you keep on track when you "off-ramp"

Because taking a nonlinear earnings path may mean skipping years of contributions and company matches, it becomes even more important to save and invest as much as possible in your workplace retirement plan when you're working and contribute as much as you can to other tax-deferred retirement accounts during your time away.

The retirement accounts that you can choose from when you leave the 9-to-5 routine include:

- **A spousal IRA.** If you're married and your spouse is still working, a spousal IRA may be an option during the times when you're not earning any income. A spousal IRA gives you the ability to add a little more each year to a tax-advantaged retirement savings account. It has the same contribution limits and catch-up opportunities as a regular IRA.
- **A SEP-IRA or individual 401(k).** If you're earning income from freelancing or consulting, you can contribute to one of the retirement accounts designed for sole proprietors or small businesses without employees. A simplified employee pension (SEP-IRA), SIMPLE-IRA or individual 401(k) lets you put aside significantly more than you could in a regular IRA, as shown in the chart below.

Whatever route you choose, continue saving and investing for retirement. Even if a career break interrupts your workplace contributions, you may still be able to take advantage of other tax-deferred accounts to stay on track.

Retirement plan options for the self-employed

Women who work for themselves as sole proprietors or small business owners with no employees can continue investing for the future with accounts that offer deductible contributions and the potential for tax-deferred returns.

Plan	2014 Annual contribution limits	2015 Annual contribution limits
Traditional & Roth IRAs	Can save up to $5,500 ($6,500 if 50 or older)	Same as 2014
SEP-IRA	Can save up to 25% of compensation (20% of net earnings from self-employment), up to a maximum of $52,000	Can save up to 25% of compensation (20% of net earnings from self-employment), up to a maximum of $53,000
Individual 401(k)	Can save as both an employee and employer up to combined maximum of $52,000 ($57,500 if age 50 or older) or 100% of compensation/earned income. This includes employee elective deferrals up to $17,500 ($23,000 if age 50 or older), PLUS an employer contribution up to 25% of compensation (20% of net earnings from self-employment)	Can save as both an employee and employer up to combined maximum of $53,000 ($59,000 if age 50 or older) or 100% of compensation/earned income. This includes employee elective deferrals up to $18,000 ($24,000 if age 50 or older), PLUS an employer contribution up to 25% of compensation (20% of net earnings from self-employment)
SIMPLE IRA	Can save as both an employee and employer. This includes employee elective deferrals up to $12,000 ($14,500 if age 50 or older), PLUS employer 2% fixed contribution OR up to 3% matching contribution	Can save as both an employee and employer. This includes employee elective deferrals up to $12,500 ($15,500 if age 50 or older), PLUS employer 2% fixed contribution OR up to 3% matching contribution

Regular saving and investing — even when you're not working — can make a big difference over time.

Because women may have a variety of work arrangements over their careers, saving enough for retirement may mean taking advantage of more than one type of retirement account — perhaps a 401(k) while working and a spousal IRA when away from the job. A combined strategy like this takes advantage of potential tax-deferred returns that can compound over many years.

The chart here suggests how powerful that strategy can be. It compares the hypothetical results of two married women — Jennifer and Lauren — who start contributing to tax-deferred retirement accounts at age 22 and earn a hypothetical average annual return of 7% on their investments. Both women leave full-time work at age 30 to raise children, but each takes a different approach to saving after that. Jennifer keeps saving with a spousal IRA, increasing it after age 50 with catch-up contributions. Lauren stops saving until she returns to work at age 50, when she starts saving 15% of her $80,000/year salary.

The difference between the two strategies at retirement is significant: $336,218. But the fact that Lauren is still able to build a substantial nest egg with no additional contributions for 20 years underscores two key axioms of retirement planning: the importance of saving as much as possible in the early years and the fact that consistently saving even small amounts can make a huge difference over time.

How their savings stack up

Two women start saving at age 22, then leave work at age 30. Jennifer contributes to a spousal IRA until age 65. Lauren stops saving until she returns to work at age 50, then saves 15% of her salary until she retires.

Jennifer		Lauren
$3,000	Initial annual contribution (age 22-30)	$3,000
7.0%	Assumed rate of return	7.0%
$4,000*	Annual contribution (age 31-50)	$0
$6,500**	Annual contribution (age 51-65)	$12,000***
$204,500	Total contribution (age 22-65)	$207,000
$1,069,382	**Retirement account balance at age 65**	$733,164

*Spousal IRA contribution
**Includes catch-up contribution
***Represents 15% of Lauren's salary
These scenarios are for hypothetical purposes only and are not intended to be representative of past or future performance. The hypothetical scenarios do not assume the reinvestment of dividends or interest or the costs associated with investing.

Challenge #3: Financial confidence

Even as women's professional standing, pay parity and economic status improve, a lack of confidence about investing for retirement can hold them back, says Liersch.

The most recent Retirement Confidence Survey from the Employee Benefits Research Institute[14] found that while men and women were equally likely to say they've calculated what they need to retire and they had already saved in a 401(k), fewer women than men feel they have saved enough to live a financially comfortable retirement. And that appears to be in keeping with a recent study that found women entering their retirement years have saved only 78% of what men have saved.[15]

But depending on the circumstances, this lower confidence is not always a negative, Liersch explains. "Being skeptical about your level of investment acumen isn't necessarily a bad thing if it results in a more cautious approach that benefits outcomes," he says, "so the key is to raise confidence levels in the right kind of ways."

Liersch believes women can boost their know-how and confidence by making a conscious effort to get involved in investment-related conversations. "This is important

because, in the past, women were not always encouraged to join conversations about investing," Liersch says. "For some women, confidence may have remained low because they didn't have the opportunity to increase their investment knowledge and experience."

Today, he says, women need to know that their perspectives on investing are relevant and productive no matter what level of investment knowledge they have — and that they (and the dialogue) will benefit from their involvement.

According to Liersch, "Good retirement decision-making doesn't necessarily require that you know everything about investing, but it does require a willingness to stay engaged and seek answers to your questions." Familiarity with your financial circumstances, plus staying interested and open to learning about investment strategies, terminology and current events may increase confidence, and also can help you feel more in control of your investment outcomes, he says.

Finding opportunities to talk about your retirement with your partner and family members also can lead to more confidence about your retirement choices. Another recent Merrill Lynch study, conducted in partnership with Age Wave,[16] revealed that people who talk with close family members about important financial topics before they retire — topics such as their level of financial security, plans for living arrangements in retirement, inheritance or long-term care — feel more prepared for the future.

"Good retirement decision-making doesn't necessarily require that you know everything about investing, but it does require a willingness to stay engaged and seek answers to your questions."

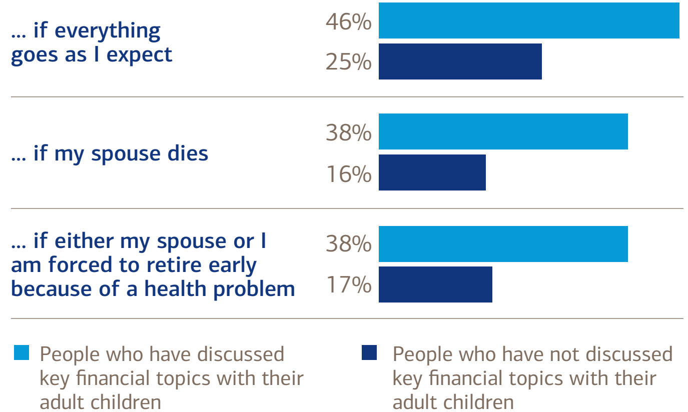
— Michael Liersch, director of Behavioral Finance, Merrill Lynch

The results showed that people who had financial discussions with their spouses or adult children were almost twice as likely to say they would be well prepared if they were to face family challenges in retirement.

Communication key to being prepared for retirement

People who have financial discussions with their family members say they feel more prepared for retirement.

I'm prepared for retirement ...



Source: The Elephant in the Room: A Merrill Lynch Retirement Study, conducted in partnership with Age Wave, 2013.

"It's easy to get caught up in activities related to your job or the kids," explains Liersch. "Then, because we tend to fund goals like the next vacation or the kids' tuition in a linear fashion, retirement never becomes a priority. Retirement conversations can help you visualize your future and put a price tag on your goals, which can help you get more committed to saving and investing to reach them."

It's really a question of "bringing the future to the present," he says, finding the time today to focus on what you need to do right now to try to reach your retirement goals later. That could include saving more, investing more appropriately for your time frame and risk tolerance, or notching up your involvement in investment decisions that may not show results for many years to come.

Of course, these are good strategies for every investor who wants to look forward to retirement. But for today's successful women with longer life spans, varied career paths and a need for a more confident, self-assured approach to planning, they are absolutely essential.

How Merrill Edge® can help

Merrill Edge® offers insights and resources to help you create a more financially secure retirement.

To learn more about the challenges and opportunities women face in saving and investing for retirement, visit **merrilledge.com/women.** You'll also find related insights on such topics as:

- **Social Security:** Go behind the headlines to understand more about the future of Social Security and how choices you make today could help you boost your retirement income later.
- **Health care:** By taking a few steps now, you may be able to prepare for your health care costs in retirement, which can give you more choices down the road.

On **merrilledge.com** you'll also find a range of information and tools to help you develop and manage your retirement strategy.

Under the **Guidance and Retirement** section you can learn more about:

- Retirement planning
- Creating a retirement strategy
- What to do as you near retirement

You'll also find a number of tools to help you estimate how much you may need to save for retirement, evaluate your retirement account choices and manage your portfolio:

- Personal Retirement Calculator
- IRA Selector tool
- Merrill Edge Asset Allocator™ tool

Looking for help with your retirement strategy?

A Merrill Edge Financial Solutions Advisor™ can help you create a retirement strategy suited to your personal financial situation. Visit **merrilledge.com/fsalocator** to find a Merrill Edge Financial Solutions Advisor™ at a select banking center near you. Or, call us at **1.888.ML.INVEST** (1.888.654.6837) Monday through Friday, 8 a.m. to 10 p.m. Eastern.

If you are not a Merrill Edge client, please visit **merrilledge.com** or call **1.888.MER.EDGE** (1.888.637.3343) to learn more and get started.

[1] dpeaflcio.org/professionals/professionals-in-the-workplace/women-in-the-professional-and-technical-labor-force/
[2] U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, 2013, bls.gov/cps/cpsaat11.htm
[3] The 2013 State of Women-Owned Businesses Report, American Express OPEN, 2013, womenable.com/content/userfiles/2013_State_of_Women-Owned_Businesses_Report_FINAL.pdf
[4] Pew Research Center, December 2013, pewsocialtrends.org/2013/12/11/on-pay-gap-millennial-women-near-parity-for-now/
[5] Merrill Edge Report: Spring 2014
[6] Black Rock Global Investor Poll, March 2014, phx.corporate-ir.net/phoenix.zhtml?c=119943&p=irol-newsArticle&ID=1905884&highlight=
[7] U.S. Census tables, 2012, census.gov/compendia/statab/2012/tables/12s0104.pdf
[8] cbsnews.com/news/living-alone-youre-not-the-only-one/
[9] Leveling the Playing Field: Upgrading the Wealth Management Experience for Women, The Boston Consulting Group, July 2010
[10] High-deductible health plan minimum annual deductibles are $1,250 for self-only coverage or $2,500 for family coverage. And annual out-of-pocket expenses (deductibles, co-payments and other amounts, but not premiums) cannot exceed $6,350 for self-only coverage and $12,700 for family coverage.
[11] Merrill Lynch Investment Management & Guidance calculations based on Social Security Administration data available at socialsecurity.gov/OACT/quickcalc/early_late.html#drcTable, accessed September 2014
[12] pewresearch.org/fact-tank/2014/04/08/on-equal-pay-day-everything-you-need-to-know-about-the-gender-pay-gap/
[13] Off-Ramps and On-Ramps Revisited, Center for Talent Innovation, June 2010
[14] ebri.org/pdf/briefspdf/EBRI_IB_03-13.No384.RCS.pdf
[15] ING Retirement Research Institute, 2012, ing.us/sites/ing.us.rri/files/what_about_women_white_paper.pdf
[16] The Elephant in the Room: A Merrill Lynch Retirement Study, conducted in partnership with Age Wave, 2013

* Keep in mind that an automatic investment plan cannot guarantee a profit or prevent a loss in declining markets. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you should consider your willingness to continue purchasing during periods of high or low price levels.

Investing in securities involves risks, and there is always the potential of losing money when you invest in securities.

GWM Investment Management & Guidance (IMG) provides industry-leading investment solutions, portfolio construction advice and wealth management guidance. Diversification and dollar cost averaging do not guarantee a profit nor protect against a loss in declining markets. Since such an investment plan involves continual investment in securities regardless of fluctuating price levels, you must consider your willingness to continue purchasing during periods of high or low price levels.

This information should not be construed as investment advice. It is presented for information purposes only and is not intended to be either a specific offer by any Merrill Lynch entity to sell or provide, or a specific invitation for a consumer to apply for, any particular retail financial product or service that may be available through the Merrill Lynch family of companies.

Any tax statements contained herein were not intended or written to be used, and cannot be used for the purpose of avoiding U.S. federal, state or local tax penalties.

Neither Merrill Lynch nor its Financial Advisors provide tax, accounting or legal advice. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation, offer or solicitation for the purchase or sale of any security, financial instrument, or strategy. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue.

© 2014 Bank of America Corporation. All rights reserved. | AR4FTP6M | WP-09-14-0369 | 00-66-0613B | 11/2014

10% post-consumer content.♻