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For Women, a Pay Gap Could Lead to a Retirement Gap

Women in the workforce generally earn less than men. While the gender pay gap is narrowing, it is still significant. The difference in wages, coupled with other factors, can lead to a shortfall in retirement savings for women.

Statistically speaking

Generally, women work fewer years and contribute less toward their retirement than men, resulting in lower lifetime savings. According to the U.S. Department of Labor:

- 56.7% of women work at gainful employment, which accounts for 46.8% of the labor force
- The median annual earnings for women is $39,621 — 21.4% less than the median annual earnings for men
- Women are more likely to work in part-time jobs that don't qualify for a retirement plan
- Of the 63 million working women between the ages of 21 and 64, just 44% participate in a retirement plan
- Working women are more likely than men to interrupt their careers to take care of family members
- On average, a woman retiring at age 65 can expect to live another 20 years, two years longer than a man of the same age

All else being equal, these factors mean women are more likely than men to face a retirement income shortfall. If you do find yourself facing a potential shortfall, here are some options to consider.

Plan now

Estimate how much income you'll need. Find out how much you can expect to receive from Social Security, pension plans, and other available sources. Then set a retirement savings goal and keep track of your progress.

Save, save, save

Save as much as you can. Take full advantage of IRAs and employer-sponsored retirement plans such as 401(k)s. Any investment earnings in these plans accumulate tax deferred — or tax-free, in the case of Roth accounts. Once you reach age 50, utilize special "catch-up" rules that let you make contributions over and above the normal limits (you can contribute an extra $1,000 to IRAs, and an extra $6,000 to 401(k) plans in 2017). If your employer matches your contributions, try to contribute at least as much as necessary to get the full company match — it's free money. Distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

Delay retirement

One way of dealing with a projected income shortfall is to stay in the workforce longer than you had planned. By doing so, you can continue supporting yourself with a salary rather than dipping into your retirement savings. And if you delay taking Social Security benefits, your monthly payment will increase.

Think about investing more aggressively

It's not uncommon for women to invest more conservatively than men. You may want to revisit your investment choices, particularly if you're still at least 10 to 15 years from retirement. Consider whether it makes sense to be slightly more aggressive. If you're willing to accept more risk, you may be able to increase your potential return. However, there are no guarantees; as you take on more risk, your potential for loss (including the risk of loss of principal) grows as well.

Consider these common factors that can affect retirement income

When planning for your retirement, consider investment risk, inflation, taxes, and health-related expenses — factors that can affect your income and savings. While many of these same issues can affect your income during your working years, you may not notice their influence because you're not depending on your savings as a major source of income. However, these common factors can greatly affect your retirement income, so it's important to plan for them.

Does Your Business Need a Buy-Sell Agreement?

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

An individual disability income policy could help replace a percentage of your income (up to the policy limits) if you're unable to work as a result of an illness or injury. The policy will stay in force, regardless of your employment situation, as long as you pay the premiums.

When you're mired deep in the day-to-day challenges of the management of your business, it's often hard to step out of the trees and take a good hard look at the forest. But at various points in the business cycle, it's important to do just that. For example, one of the key decisions you'll need to consider is what would happen to your business if you decide to step away, or you die or become permanently disabled. A buy-sell agreement can be a useful tool in helping you plan for these circumstances.

What is a buy-sell agreement?

A buy-sell agreement is a legally binding agreement that establishes when, to whom, and at what price you can sell your interest in a business. Buy-sell agreements are also known as business continuation agreements and buyout agreements.

You can create a buy-sell as a separate agreement or you can include certain provisions addressing the buy-sell issues in a business's operating agreement. Regardless, the agreement or provisions must clearly identify the potential buyer, any restrictions and limitations, and the conditions under which a sale will occur. Under the terms of the agreement, you and the buyer enter into a contract for the transfer of your business interest by you (or your estate) at the time of a specified triggering event. Typical triggering events include death, long-term disability, retirement, divorce, personal insolvency or bankruptcy, criminal conviction, loss of professional license, and resignation or termination of employment.

A well-crafted buy-sell agreement creates a market for your business interest, establishes its price, and provides cash to complete the business purchase. The ability to fix the purchase price as the taxable value of your business makes a buy-sell agreement especially useful in estate planning. That's because if death is the triggering event, it can help reduce the estate tax burden on your heirs. Additionally, because funding for a buy-sell agreement is typically arranged when the agreement is executed, you're able to ensure that funds will be available when needed, providing your estate with liquidity that may be needed for expenses and taxes.

Pricing the company and funding a buy-sell agreement

A buy-sell should establish a formula for determining the purchase price or state the price outright. Without establishing this price in advance, lengthy disputes and lawsuits can arise at the time the ownership interest must be bought back. When the buy-sell involves family members, it must also be proven that the transaction is comparable to an arms-length sale between unrelated people and was entered into for a bona fide business purpose.

After determining the value of the business, you, your advisors, and other parties to the agreement will determine the best way to fund the transaction and the triggers appropriate for your business situation. There are many different ways to fund a buy-sell agreement, including a sinking fund, cash, borrowed funds, installment sale, self-canceling installment note, private annuity, life insurance, and disability insurance. Depending on the situation, one or more of the possible methods may be used.

Types of structures

Buy-sell agreements can be structured to meet the needs of both the business and its owner(s), taking into consideration tax consequences and individual goals. Following are three types of buy-sell agreements, along with brief descriptions of each:

- An **entity purchase (or redemption) buy-sell** obligates the business to buy the interests of the departing owner(s).
- With a **cross-purchase buy-sell,** each owner agrees to buy a share of the departing owner's interest. The business is not a party to the transaction.
- A **wait-and-see buy-sell** is used when the parties are unsure whether the business or the owners will buy the business interest. Typically, the business is given the first option, and if it is not exercised, the remaining owners are given the opportunity. If the remaining owners do not wish to buy, the business must purchase the interest.

Other considerations

Keep in mind that there are costs and possible disadvantages involved in establishing a buy-sell agreement. One such disadvantage is that the agreement typically limits your freedom to sell the business to outside parties.

If you think that a buy-sell agreement might benefit you and your business, consult your attorney, accountant, and financial professional.

Life Is for the Living, and So Is Life Insurance

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Life insurance guarantees are based on the claims-paying ability and financial strength of the life insurance company issuing the policy.

Life can be busy. The requirements of work and family often leave little time to step back and think about where you've been and where you're heading. But as your responsibilities grow, so does the need to evaluate what would happen if life for you stopped. September is Life Insurance Awareness Month and a good time to reflect on how life insurance can help those you leave behind — the living.

Your spouse or life partner

A successful marriage is often predicated on sharing and providing for one another, and that includes each other's financial obligations. If you were suddenly no longer in the picture, would there be enough money to pay for your final expenses, cover debt, and buy some time to allow your significant other to adjust to a new way of life? Life insurance can provide funds to cover immediate expenses and income to help support your surviving loved one.

Your children

You've worked hard to provide for your kids, to give them the chance to realize their hopes and dreams. Your children are likely your greatest responsibility — a responsibility that doesn't end with your passing. Whether your children are in diapers or about to enter college, if something happened to you or your spouse, or both of you, would there be enough income to continue to provide financially for your children? Life insurance can help provide the resources for their continued growth and maturation.

Your home

Buying a home may be the largest single expenditure of your life. While being a homeowner is exciting, mortgage payments, often lasting 30 years, along with maintenance, utility costs, homeowners insurance, and real estate taxes can add up to a long-term financial commitment. Adequate life insurance protection can provide funds that could be used to cover these expenses, allowing your family to remain in their home.

Your business

Do you own your own business? Life insurance can fit into your business plan in many ways. It can be part of an employee benefit program, with coverage under a group plan. Life insurance purchased on the lives of certain key employees can protect your company from the loss of talented and valuable workers. And life insurance can be used to fund a buy-sell agreement.

Caring for an aging parent or loved one

Are you caring for an aging parent or loved one? Would the people who depend on you be able to afford quality health care and a comfortable place to live without your financial support? Life insurance can become extremely important in these situations, helping to provide for these individuals in the event of your death.

Planning for retirement

Preparing for retirement probably means you're saving as much as you can in your 401(k), IRA, or other savings vehicle. If you die before you get to enjoy your retirement, will your retirement plan die for your surviving loved ones as well? Not only will your salary be unavailable to help pay for current living expenses, but your income won't be there to build the nest egg for the retirement of your spouse or life partner. Life insurance can help provide funds that can be used for your spouse's or life partner's retirement.

Your health has changed

If your health declines, how will it affect your life insurance? A common worry is that your insurer could cancel your coverage should your health change. However, changes to your health will not affect your current insurance coverage, provided you continue to pay your premiums on time. In fact, you should take a closer look at your life insurance policy to find out if it offers any accelerated (living) benefits that you can access in the event of a serious or long-term illness.

Leaving a legacy

Life insurance can be used to increase the size of an estate for your heirs. The death benefit could provide your beneficiaries with a larger legacy than might otherwise be possible. The cost of life insurance may be significantly less than the proceeds of the policy paid to your beneficiaries when you die.

Charitable giving

Donating a life insurance policy to a charity may enable you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both you and the charity could benefit from your donation (though some charities may not accept a gift of life insurance for various reasons).

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I just bought a vacation home. Do I need to purchase a specific type of insurance?

Insuring a vacation home is different from insuring a primary residence. As a result, you'll want to purchase insurance that is specifically geared to this type of property.

The cost to insure a vacation home will vary, depending on where the property is located and the insurance company. Other factors, such as the type of property and special amenities, may also affect the cost of premiums.

Insurance that is specifically designed for second/vacation homes can range from standard coverage that protects against certain named perils, to more comprehensive coverage that protects against all perils (up to policy limits), unless specifically excluded in the policy.

Depending on what the policy covers, you may need to obtain additional protection (e.g., personal and liability property coverage) through either an endorsement to your primary homeowners policy or a separate policy. And if your vacation home is located in an area that is susceptible to flood damage, which is not covered under standard homeowners insurance, you'll want to consider separate coverage for that peril as well. Homes susceptible to hurricanes, wildfires, or earthquakes might also require an endorsement or separate policy.

Insurance premiums for vacation homes are usually much higher than those for a primary residence because of circumstances unique to second homes (e.g., long periods of being unoccupied, vandalism risk). However, you may be able to save money by insuring your vacation home with the same company that provides coverage for your primary residence. You might also be eligible for other discounts, such as those offered for newly built homes and those with an operating security system. Policy discounts vary by state and insurer.

Be sure to shop around for the best coverage and rates. You might also want to contact the state department of insurance where your vacation home is located for additional information on the coverage and rate options that may be available.

Cartoon: College Time

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