The Hanover Advisor

HANOVER ADVISORS

March 2021

What Women Need to Know About Social Security

The choices we make about how long to work, when to retire and when to take Social Security benefits can have a dramatic impact on our long-term financial security. This is true for all Americans, but especially for women. Women account for 55% of all adult Social Security beneficiaries. At age 85, they account for nearly two-thirds.

Social Security benefits are gender-neutral of course, but women generally live longer than men, statistically earn less over their lifetimes, and rely on Social Security benefits for a greater percentage of their retirement income than men. A 2018 survey by Nationwide found that 62 percent of women expect Social Security benefits to be their primary source of income in retirement. For these reasons it is important that women pay attention to how the choices they make will impact the benefits they ultimately receive, ensuring they can be financially secure in retirement.

Women may want to consider waiting to take benefits.

Americans can begin taking Social Security benefits once they reach the age of 62; however, they will receive a lower benefit than if they wait until they reach full retirement age. Full retirement age varies depending on the year someone is born, but for most Americans, it is 66 or 67. Workers can also delay taking Social Security even after they reach full retirement age, and they will earn an enhanced benefit for every year they continue to work until they reach the age of 70.

There may be some instances where someone's expected longevity and other sources of retirement income mean taking Social Security earlier makes sense, but retirement experts generally recommend waiting to take Social Security benefits for as long as possible to ensure a larger benefit. There is, however, an additional reason for women to consider waiting to take benefits. The amount of an individual's Social Security benefits is based on their highest-earning 35 years of work. Many women leave the workforce or work part-time while raising children, so they may have years where their income is lower or non-existent. By working longer, women can make up for the years they had diminished earnings, increasing the size of the benefit they ultimately receive.

Be Aware of the Cost of Longevity

Generally speaking, women live longer than men. Women who reach the age of 65 will, on average, live 2-5 years longer than men in the same age cohort. This means that not only will women require an

extra 2-5 years of living expenses, but by living longer, women are also more likely to need expensive long-term care. While everyone, regardless of gender, should factor the potential need for long-term care into their retirement plans, women should be aware that they are not only more likely to need it, but need it for longer. A study from the U.S. Department of Health and Human Services found that for retirees who need long-term care, women, on average, require services for 1.5 years longer than men. When deciding when to take Social Security, women should remember that they not only need to cover their regular living expenses but potentially a lengthy stay in a nursing or assisted living facility as well.

Coordinate with Your Spouse

It is important that married women work with their spouses and consider all the options available to maximize their Social Security income. Spouses are entitled to up to 50% of their higher-earning partner's retirement benefits. It should be noted that this is not in addition to their own benefits, but rather they will receive whichever is higher, their spousal benefits or their own benefits based on their work history. So, for example, if the higher-earning partner intends to work until 70, the lower-earner could take their own benefits early, and then receive spousal benefits when their partner retires.

Remember, you may be entitled to spousal benefits even after a divorce.

Divorced women should also keep in mind that they may also be eligible for spousal benefits. The be eligible to receive benefits, the marriage must have lasted at least ten years, the divorce must be at least two years old, and the recipient cannot be remarried. So long as someone is 62, their ex-spouse is eligible to begin collecting benefits, and the spousal benefit is greater than what their individual benefit would be, they are entitled to 50% of their spouse's full Social Security benefit, even if the spouse has remarried.

It is also important to coordinate so that married couples can maximize survivor benefits. As previously mentioned, women generally live longer, so unfortunately married women must consider what will happen if they are widowed. A higher-earning partner may want to put off claiming Social Security benefits to ensure their surviving partner receives a larger benefit. Widowed spouses are due between 71 and 100 percent of their spouse's benefits, depending on age. It is important to keep in mind that a widow or widower will receive either survivor benefits or their own benefits, whichever is higher, but not both. It is important that women are involved in financial planning and that they are prepared for how their finances will change if and when their partner passes away.

The Benefits of HSAs Go Beyond Healthcare Costs

Healthcare costs have been on the rise for decades and are expected to continue climbing. One way to help manage these costs is with a Health Savings Account, or HSA. These specialized accounts are not only a useful way to save for medical expenses, but they can also help you lower your tax bill and can even be used as an investment account for retirement.

Basically, these accounts allow you to set aside pre-tax dollars which you can then use to pay for qualified medical expenses. As part of the CARES Act passed during the pandemic, HSAs can also be used to cover over-the-counter medications and feminine hygiene products. Some employers offer HSAs to their employees, but even if yours does not, you can set one up as an individual. It is important to note that HSAs are only available to people who are enrolled in a high-deductible insurance plan, so they are not right for everybody. To decide if you could benefit from an HSA, here are a few key points:

Requirements and Limitations: First, it is important to keep in mind that simply having a high deductible does not mean you have the type of officially designated "High-Deductible Health Plan," or HDHP, required for an HSA. The government updates these guidelines yearly, and for 2021 an HDHP needs a minimum deductible of $1,4000 for individuals and $2,800 for family coverage, as well as a maximum out-of-pocket limit of $7,000 for individuals and $14,000 for families.

There are also limits on how much you can contribute to an HSA. In 2021, individuals with self-coverage can contribute $3,600, those with family coverage can contribute $7,200, and those over the age of 55 can contribute an extra $1,000 each year. One thing to keep in mind is that contributions can come from anyone. Many employers have programs where they contribute to an employee's HSA, but even if yours does not, a friend or relative who wants to help can contribute to your account.

Tax Benefits: They say good things come in threes, and that holds true when it comes to HSAs, which offer three big tax advantages. First, contributions are either pre-tax payroll deductions (if your HSA is administered through your employer), or, if you make contributions with after-tax dollars, you can deduct them from your gross income, meaning that you can lower your income tax burden. Contributions are also not subject to state income tax in most states. Secondly, the money in your HSA grows tax-free, and finally, you do not have to pay taxes on withdrawals, so long as they are made to cover qualifying expenses. If you withdraw money for non-qualified expenses, you will owe income taxes on the money, and if you are younger than 65, you will have to pay a 20% penalty.

> HSAs may be more useful not as a savings account, but a retirement investment account

HSA as a Retirement Investment Account: Though HSAs are savings accounts, they can also provide an attractive investment opportunity. Once the account meets the investment threshold (usually $1,000 or $2,000 depending on the custodian), account holders can invest their contributions just like a 401(k) or IRA. For this reason, it may be better to think of your HSA not as an account from which you pay your yearly medical expenses, but rather a retirement account that will help you pay for healthcare in retirement.

By maximizing your yearly HSA contribution and implementing even a conservative investment strategy, you could build a sizable nest egg by the time you reach retirement. Furthermore, HSAs do not have required minimum distributions like IRAs,

meaning you can keep the money invested until you need it, and when you do need it, your withdrawals will be tax-free. It is far more likely that you will need expensive medical care during retirement than in your younger years, and HSA-qualified expenses also include long-term care and nursing facilities. If you do take a distribution for something other than medical expenses, it will be taxed, but so are distributions from traditional IRAs, and because your income will likely be lower when you are retired, the tax burden will likely not be detrimental to your finances.

According to a study from Fidelity, the average couple turning 65 in 2020 can expect to spend $295,000 on healthcare expenses over the course of their retirement. This number will only go up for future generations, so it is important to do everything you can to start preparing now. Depending on your situation, an HSA could be a valuable tool to ensure you can cover your healthcare costs in retirement.

Control and Flexibility: Many employers offer a flexible spending account, or FSA, which is like an HSA except, ironically, less flexible. With an FSA, you decide how much to contribute at the start of the year, and you must use all the money you have contributed before the end of the year. With an HSA, you can contribute throughout the year and all your money rolls over the next year. Furthermore, FSAs are tied to your employer, but the money in an HSA remains available to you, even if you change jobs, retire, or switch to an insurance plan without a high deductible.

Hanover Advisor Bulletins
Special Reminders to all Hanover Clients

- Pershing will be implementing a new fee of $2 for mailed hardcopies of monthly statements and $1 for trade confirmations. We recommend that all clients switch to electronic copies of these documents to avoid this fee. If specific statements are needed, Hanover can provide them at no cost, upon request. If you have any questions or concerns about this, please contact us.
- We invite all clients to schedule an online portfolio review. Because we respect your time, we offer three different meeting formats that vary in length and level of specificity. For more information or to schedule a meeting, please contact us.
- Since the start of the pandemic, Hanover employees have been working remotely, conducting meetings online or over the phone. However, we would like to remind our clients that we still have our main office in Greenville, SC and conference facilities in Atlanta, GA. We are happy to hold in-person meetings at either of these locations or any other that works for you.
- The Hanover Advisors website can be accessed at hanoveradvisorsinc.com. There you will find our latest newsletter and investment commentary, articles, our blog, and videos. You can also learn more about our services, access both the Black Diamond performance reporting system and your Pershing brokerage account (s).
- All Hanover clients have free access to our internet-based reporting system known as Black Diamond. This robust system provides comprehensive performance reporting, asset allocation and risk assessment on clients' portfolios. Our office is available to assist in accessing and utilizing the Black Diamond system.

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