

WEALTH MANAGEMENT

When Annuities Are a Better Deal for Women Than Men



Annuities purchased within employer plans are subject to gender-neutral pricing, says WSJ Wealth Management Expert Benjamin Harris. PHOTO: GETTY IMAGES/ISTOCKPHOTO



By

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When it comes to retirement, women often have it worse than men. They typically have higher poverty rates, lower Social Security benefits, and less saved in 401(k)s. But women do have a leg up on one aspect of retirement: When buying an income annuity through a workplace retirement plan, they can expect higher benefits relative to their male counterparts.

The benefit's origins trace back to a 1983 Supreme Court case regarding employers offering male and female workers different pension benefits based on their life expectancies. The Supreme

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Court ruled that, as a form of sex discrimination, differential pension payments by gender violated the Civil Rights Act—meaning that companies had to offer men and women identical pension benefits. By extension, annuities purchased within employer plans were also subject

to the same gender-neutral pricing.

In practice, this unisex-pricing standard is a boost for women due to substantially longer life expectancy: A 65-year old woman can expect to live, on average, about three years longer than a man of the same age. And since more years of life mean extra annuity payments, women can expect to get a lot more from their annuity over a lifetime.

To get the pricing benefit, women must buy an annuity within a workplace retirement account—such as a 401(k). Women who can't buy an annuity through a workplace will have to go to the individual market—a term for annuities purchased outside of an employer plan—where insurers can generally charge different prices to men and women. (Currently, only Massachusetts and Montana require unisex annuity pricing outside of workplace plans; all other states allow annuity prices to vary by gender.)

How much is this unisex pricing requirement worth?

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To get a sense, it's helpful to compare annuity quotes in the individual market. Quotes from [immediateannuities.com](#), for instance, show that, on average, a \$100,000 policy for a 65-year-old woman yields \$505 a month in income, compared to \$532 for a man of the same age—a difference of about \$325 a year.

It's not nearly enough to equalize discrepancies between men's and women's retirement prospects, but the extra amount—nearly \$7,000 across retirement for a 65-year old woman living an average lifespan—can certainly help.

Unfortunately, opportunities to buy an annuity within a 401(k)-type account are still rare. A 2017 survey Deloitte found that just 6% of 401(k)-type accounts offered an income annuity.

This could rise in the near future, though, as pending legislation in Congress may increase the prevalence of annuity offerings in retirement plans. And more opportunities to buy income annuities within 401(k) plans mean more opportunities for women to cash in on this price advantage.

This benefit is far from a panacea; modestly higher annuity benefits won't cure the struggles many women face in retirement. But at least it's a start.

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