WOMAN AND RETIREMENT

A GUIDE FOR FINANCIAL PLANNING

THE POWER OF WOMEN

- Primary breadwinners in 40% of U.S. households
- Reponsible for 85% of consumer spending
- Make 70% of major financial decisions
- Controls over 60% of personal wealth

INTRODUCTION

The financial services industry is experiencing an overdue wake-up call when it comes to women and money.

When you search the word “investor” in Google Images, you are instantly overwhelmed by photos of men in suits and ties, peering seriously at stock charts, pointing at computer screens together, and even holding stacks of money. When women are included in these images, they are usually standing behind their male counterparts, appearing to gently offer emotional support. The message these images convey is loud and clear: the world generally considers men to be the more skilled and knowledgeable gender when it comes to investing.

However, it turns out that assumption is simply not the case. According to a 2016 Fidelity study, female investors tend to outperform male investors by an annual average of 0.4%.[1]

What factors are at play here? First, men tend to buy and sell their investments more often. The same study found that men made an average of 55% more trades in 2016 than their female counterparts.

Since women are more likely to hold on to their investments throughout market fluctuations, they capture more growth over time. Women usually conduct more research before investing and maintain a long-term perspective more often. They tend to view investing less as a game to be won and more to accomplish their goals. Regardless of the psychology, women’s success in the investment world is good news.

There’s a very good chance that women will have sole responsibility over their finances at some point in their lives. In fact, 90% of women will find themselves in this situation, whether it’s because they delay marriage, remain single, go through a divorce, or outlive their spouse.[2]

RISK AND THE ART OF INVESTING

Women are not as risk-averse as the general public may think. In 2015, Merrill Lynch asked 5,000 women about their investing beliefs and behavior. When asked if they believed risk was worth the chance of reaping higher returns, the answer was a resounding “yes” — 85% said they agreed that risk-taking is beneficial, and 81% said they could adapt to changing markets and investment outcomes. The study also found that men and women who share the same level of financial knowledge exhibit the same risk behavior.[3]

These findings would seem to imply women have a healthy appetite for investment risk — and a lot of the time, that’s true. However, unlike men, women are more mindful about what the dangers are before diving in. They take the time to evaluate whether the reward justifies the risk.

1 Who’s the Better Investor: Men or Women – Fidelity, May 2017

2 Helping Clients Through Grief, Investment News, Robert Sofia – January 2014

3 Women and Investing: A Behavioral Finance Perspective, Michael Liersch, Fall 2015

TAKEAWAYS

Education is good starting point. Women surpass men at research needed to gain insight for better decision-making. What's most important is to take risk that's appropriate for your situation.

Think about your risk capacity. How much risk you are comfortable taking on, given your resources, knowledge, and plan versus your risk tolerance (how emotionally comfortable you are with taking investment risk).

You can reduce risk by diversifying across types of investments, investing consistently over time, and maintaining a long-term investment plan.

FINANCIAL CONFIDENCE

Is it true that women lack financial confidence? No so fast.

One reason women are perceived as being unsure of themselves is because they often make decisions differently than men do. Today's culture applauds people who speak and act authoritatively, don't hesitate or mince words, and make decisions quickly (for better or worse). While there are certainly women who embody these characteristics, there are many more who tend to think things through before they contribute to a conversation or prefer to gather more information before making a decision. This quality can be easily misinterpreted as a mark of indecisiveness and insecurity when, in fact, the woman who embodies it is simply taking time to reach a well-informed decision.

TAKEAWAYS

Women discount their financial savviness without considering areas of their lives in which they are already smart about money.

Women are adept at picking up financial concepts if they are explained without unnecessary jargon or obscure concepts.

FINANCIAL INTEREST

The idea that women aren't interested in investing is a myth and deep-rooted stereotype. Traditional gender roles suggest that women prefer "simple" financial tasks, like paying bills or grocery shopping, and defer more "important" matters, like earning a high income and investing, to the men in their lives. Perhaps that has been true historically, but a different reality is taking shape. Female entrepreneurship is on the rise. Between 2007 and 2016, the number of women-owned companies grew at a rate five times faster than the national average (45% versus 9% among all businesses).[4]

4 The 2016 State of Women-Owned Business Report, American Express Open – April 2016

The idea that women need extra help understanding their finances is a myth. This may seem counterintuitive, but to truly understand this myth, it helps to take a closer look at the data. A key reason women performed worse than men on Lusardi's financial literacy test is because they disproportionately answered the test questions with "do not know." To determine if this was truly the result of a lack of understanding, Lusardi and her research team decided to remove "do not know" as an answer option. When they did, women's correct responses increased significantly. In fact, Lusardi estimates that half of the gap was the result of women underestimating their own knowledge.[5]

While more women today are becoming involved in their family's long-term finances, those who are experiencing widowhood now were part of a generation where women were less likely to be involved in their family's retirement planning and investments. This can make the difficult experience of losing a spouse even harder for a widow who does not know what assets she has or whether she will have enough money to live out the rest of her life.

There is much that can be done to better educate and support women on their financial journey. It starts with encouraging women of all ages to get actively involved in their finances; helping them understand the basics and where to go for help; and building their confidence and motivation to take further action. For widows, it is important that education and resources are tailored to their unique needs.

TAKEAWAYS

Women must stop discounting their skills and knowledge.

Women earn less, live longer, are more prone to lose a spouse, and are more likely to be caregivers, which means their needs are different. They don't necessarily need more help, rather they need assistance in areas that men do not.

FINANCIALLY IRRESPONSIBLE

The idea that women spend their money irresponsibly is ludicrous. Why do women have such a notorious reputation for being shopaholics? It's likely because women do tend to shop more than men — in fact, they're responsible for 85% of overall consumer spending. However, consider the context: women are almost always the primary caregivers for their loved ones. That means they end up not just buying for themselves but for their kids, spouses, relatives, friends, colleagues, their neighbors, etc.[6]

All too often, the effort involved in managing a household is discounted. Simple tasks like grocery shopping and gift-giving comprise an endless amount of invisible labor that women put forth every day to maintain the structure and stability of their families' lives. Women are more likely to use their resources to obtain food, healthcare, and education for their families. In turn, these contributions benefit their community as a whole — and there's nothing more responsible than that. When women come up short financially, it can more often be attributed to underearning rather than overspending. Women do more with less.

5 Women, Confidence and Financial Literacy," Tabea Bucher-Koenen, Rob Alessie,
Annamaria Lusardi and Maarten van Rooij, Netspar – February 2016

6 Yankelovich Monitor & Greenfield Online

TAKEAWAYS

Tracking your expenses is the single most important habit you can develop.

IMPROVE YOUR RETIREMENT OUTLOOK

Retirement will be unique for each woman, but the tools to help achieve retirement readiness are common to all. If you are at or near retirement, now is the time for every woman to focus on achieving your financial goals.

1. Create a budget that includes income, living expenses, paying off debt, and financial goals such as building short-term savings and long-term retirement savings.
2. Save as much as you can, knowing that both small and large amounts add up and compound over time.
3. Take advantage of employer-based retirement plans.
4. Envision your future. Develop a retirement strategy and write it down.
5. If faced with caregiving responsibilities for a parent, spouse or other loved one, carefully consider any changes to your work.
6. Maintain your ability to continue working as long as you desire.
7. Become personally involved in your family finances ranging from daily budgeting to long-term planning. Discuss retirement saving and planning with family and close friends. An open dialogue with family members about expectations of needing to provide or receive financial support should be part of every woman's retirement strategy.
8. Get educated about retirement investing and strategies. Learn about types of retirement accounts, asset allocation, dollar-cost averaging and the risks of early withdrawals. Become knowledgeable about spending your savings in retirement, including the best time to start receiving Social Security and possible ways to make your savings last throughout your retirement.
9. Have a backup plan in the event of unforeseen circumstances such as divorce, loss of a partner, or being unable to work before your planned retirement.
10. Safeguard your health to help make the most of your retirement.

HAS YOUR ADVISOR DEVELOPED AN INVESTMENT POLICY WITH YOU?

An investment policy is the most important document created between you and your investment advisor. This document is where you and your advisor spell out your terms, investment types, tax considerations, goals, and risk parameters. If you haven't seen your Investment Policy Statement (IPS) in a while, ask for it. If you're a do-it-yourselfer, you should create one immediately.

Large financial organizations are required to have an IPS because of all the important benefits it provides. This set of guidelines related to risks and goals helps companies maintain a steady course.

As important as an IPS is for financial organizations, it is even more important for individual investors who are near or in retirement. If your current advisor has not taken the time to create an Investment Policy Statement to manage your assets, find out why as soon as possible.

RENEWABLE RESOURCE

We hear the term “renewable resource” used often when referring to energy—solar, wind, and even tidal energy. Most agree that the practical use of renewable energy is essential for our future well-being so that we don’t run out of something so important.

The same can be said for money, investing, and retirement. By planning ahead, those who are part of The Income Generation, Americans born in or before 1969, can help to ensure they do not run out of money in their golden years.

By placing a large part of your retirement savings in fixed-income securities, Baby Boomers can establish a renewable source of income that they can count on well into retirement—while preserving the value of their original investment.

As life expectancies continue to increase, it’s become more important than ever for anyone over the age of 50 to take action and establish their own renewable streams of income to cover their living expenses throughout retirement.

If you haven’t been able to save enough to live off in retirement, investing for income could be the solution you’ve been looking for. By protecting your principal from stock market volatility and investing it in a manner that establishes renewable streams of income, you can help to ensure that you won’t outlive your savings during retirement. As long as your principal is properly protected and left intact, you’ll have a stream of income that you can count on.

KNOW, WITH GREATER CERTAINTY, WHAT YOUR FINANCIAL FUTURE HOLDS

As advisors, we believe that knowledge and empathy both play a role in money matters. Anyone who focuses on one at the expense of the other is presenting a false choice. We have seen that self-reflection leads to self-knowledge, which leads to self-confidence. In turn, self-confidence leads to better decisions and timely implementation.

We hold our convictions strong to ensure our clients live their best retirement lives. In concert, our Income Specialists design plans that fit your unique needs. We are a proponent of investing in income-generating securities. This approach is similar to lending your money to the largest U.S. companies that pay you regularly scheduled interest. In the case of bonds, at the end of the loan term, they will send you the last interest payment along with the return of your original principal.

By owning predominantly income-generating securities, our clients can know what their financial future holds with greater certainty. Other markets such as common stocks and mutual funds—including bond funds—don’t offer much certainty.