WOMEN, MONEY, AND RETIREMENT

WEALTH WORKS
FINANCIAL STRATEGIES

Women, Money, and Retirement: Separating Fact from Fiction

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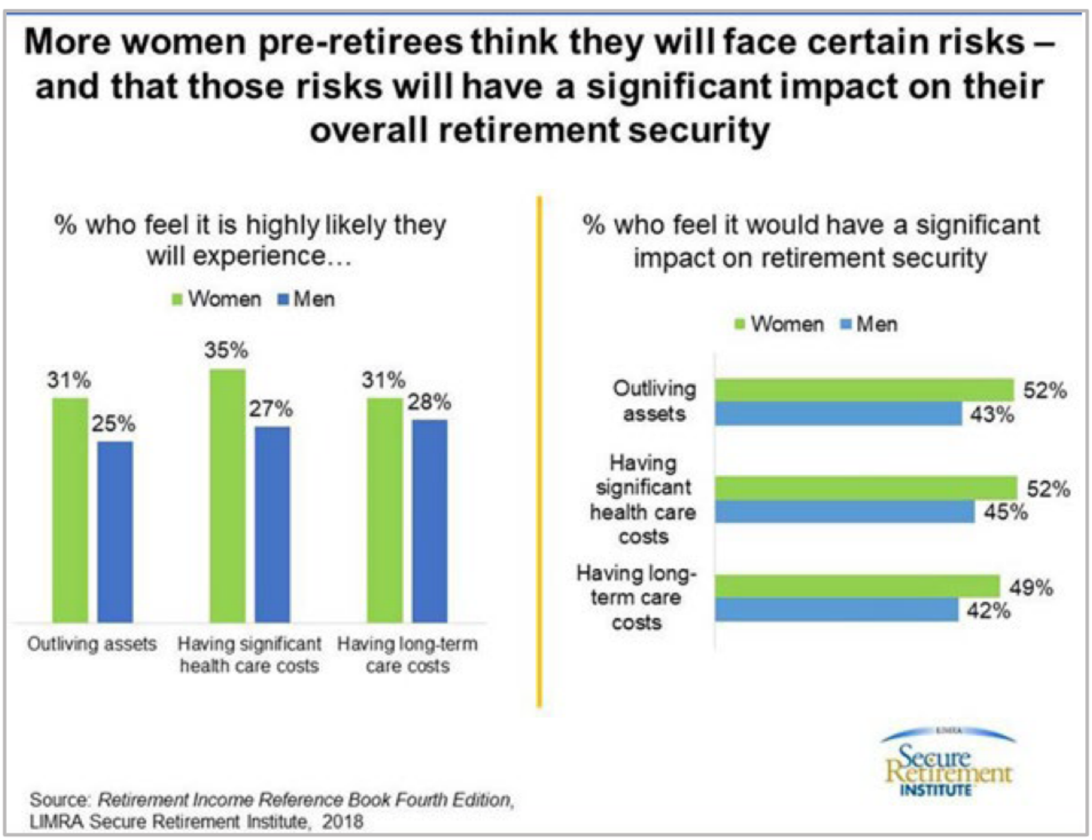
The 100th anniversary of women's right to vote in the U.S. occurred in 2020. During the last century, women have made great strides in educational achievement and career opportunities. Despite this progress, they continue to be at greater risk than men of not achieving a financially secure retirement.

Today, a woman's path to secure retirement is filled with obstacles, such as lower pay and time out of the workforce for parenting or caregiving, which can negatively impact her long-term financial situation. No matter their race, age, occupation, or education, women are negatively impacted by the gender wage gap. One of the most cited statistics comes from the 2016 U.S. Census Bureau report that shows women earn 79 cents for each dollar men earn in the U.S. Further, the report highlights the negative effects race plays on a women's income. Compared to white men, Black and Hispanic women are paid only 65 cents and 58 cents on the dollar, respectively.[1]

Statistically, women also tend to live longer than men, which creates an even greater need to plan and save. In short, for women, many factors influence financial wellness spanning the social and economic spectrum—factors that often undercut their security later in life. These life events can place extreme pressure on retirement resources.

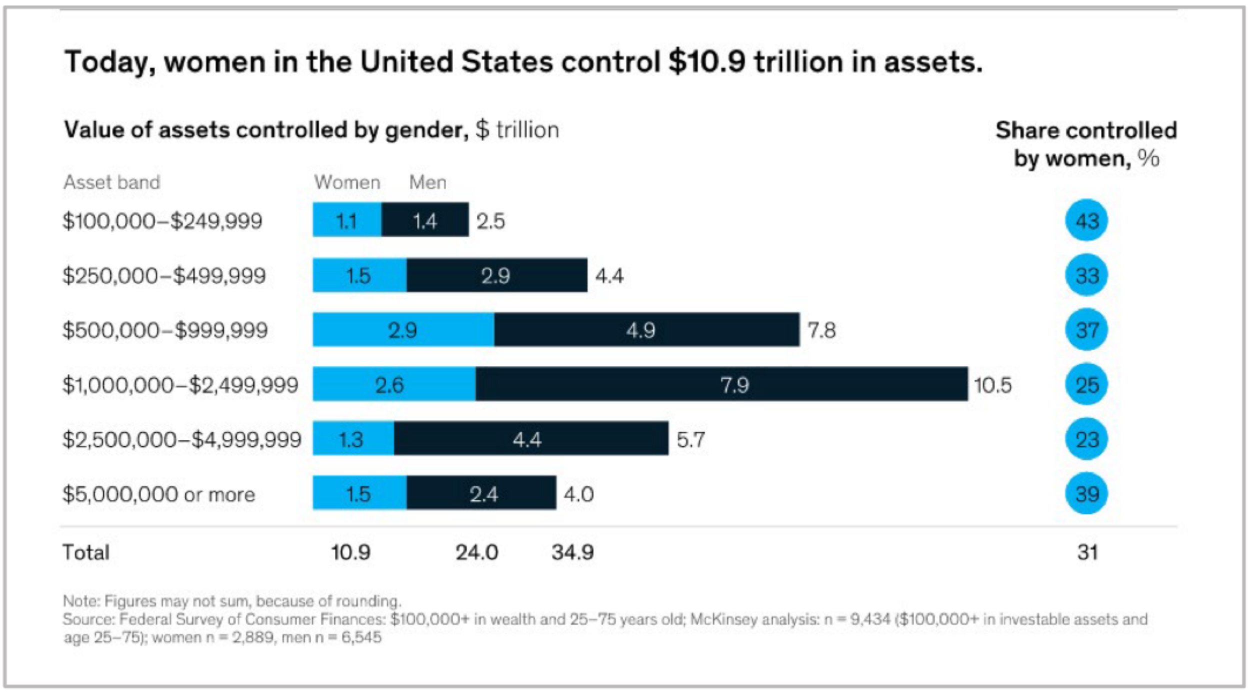


The Financial Industry is Getting a ‘Wake-Up Call’ About Women and Money

When you search the word “investor” in Google Images, you are instantly overwhelmed by photos of men in suits and ties, gazing 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 true. According to a 2016 Fidelity study, female investors tend to outperform male investors by an annual average of 0.4%.[2] So 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.



McKinsey & Company, July 2020
https://www.mckinsey.com/industries/financial-services/our-insights/women-as-the-next-wave-of-growth-in-us-wealth-management

There’s also 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.[3] These and other statistics help dispel many of the common myths and misconceptions about women and money.

Myth #1: Women Aren't Risk-takers

Women are not as risk averse as the public may think. In 2015, Merrill Lynch asked 5,000 women about their investing beliefs and behavior. When asked if they believed the 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 with the same financial knowledge level exhibit the same risk behavior.[4]

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

HOW FINANCIAL ADVISORS CAN HELP

Education is a good starting point. Women surpass men in research needed to gain insight for better decision-making. What's most important is to take risks that are appropriate for their situation.

Think about your clients' risk capacity. How much risk are they comfortable taking on, given their resources and knowledge?

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

Myth #2: Women Lack Financial Confidence

One reason women are perceived as being unsure of themselves is that they often make decisions differently than men. 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, many more tend to think things through before they contribute to a conversation or prefer to gather more information before deciding. 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, which is often a great asset when it comes to money and investing.

HOW FINANCIAL ADVISORS CAN HELP

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

Understanding their decision-making process will go a long way in earning trust and respect.

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

Myth #3:
Women Aren't Interested in Financial Matters

The idea that women aren't interested in investing is a myth and a 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).[5]

The idea that women need extra help understanding their finances is also a myth. This may seem counterintuitive, but to truly understand this myth, it helps to take a closer look at the data. Women performed worse than men on Lusardi's financial literacy test 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. Lusardi estimates that half of the gap was the result of women underestimating their individual knowledge.[6]

While more women are becoming involved in their family's long-term finances today, 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, education and resources must be tailored to their unique needs.

HOW FINANCIAL ADVISORS CAN HELP

Advisors must redirect women away from 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. Financial advisors should listen, be empathetic, and give supportive advice.

Myth #4:
Women are Financially Irresponsible

The idea that women spend their money irresponsibly is also demonstrably false. Why do women have such a notorious reputation for being shopaholics? It's likely because women do tend to shop more than men. They're responsible for 85% of overall consumer spending. However, consider the context: Women are almost always the primary caregivers in the family. That means they end up not just buying for themselves but for their kids, spouses, relatives, friends, colleagues, neighbors, etc.[7]

HOW FINANCIAL ADVISORS CAN HELP

Financial advisors need to instill and reinforce positive spending habits of their female clients. Tracking expenses is the single most important habit they can develop.

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 family life. 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 often be attributed to underearning rather than overspending. Women do more with less.

Retirement Risks for Women

Women often face more gender-specific challenges when it comes to successfully planning and saving for retirement. Among those challenges are the following:

Outliving Assets: At age 65, the average life expectancy is 18 years for American men and 20 years for women. Approximately 30% of women and 20% of men will survive until age 90. National survey data and simulation studies suggest that middle-income households have not saved enough to meet all expected retirement expenses[8]. Women have lower savings and depend more heavily on Social Security for retirement income.

Loss of Spouse: Since women have longer life expectancies and traditionally have married older men, periods of widowhood of 15 years or more can be common. For many women, the death of a spouse results in a decline in the standard of living. Women are much more likely to be alone in old age, and old women are more likely to be poor. For those over age 85, 45 percent of the men and 85 percent of the women are widowed. Women are more likely to live longer and live alone.

Decline In Functional Status: At least 70% of people over age 65 will need long-term-care services and support at some point. Women are more likely to have longer periods of chronic disability and are more likely to need care in a long-term facility or from a paid caregiver.[9] Women will spend longer periods in a state of chronic disability and are less likely to have a spouse-caretaker.

Healthcare and Medical Expenses: A 2014 study estimated that healthcare costs for a retired couple age 65 could amount, on average, to $220,000 over their retirement, not including long-term-care expenditures.[10] The median annual cost of care ranges from $40,000 to $80,000, depending on the level of care needed.[11] This implies that lifetime costs can amount to $1 million or more for some couples. These figures have only increased since. Health costs may affect women more than men because they have lower incomes but are exposed to similar medical costs. Women are also less likely to have employment-based retiree medical benefits.

Inflation: Inflation has a larger impact on people who live longer and is thus a bigger issue for women. The effect also compounds over time.

Summary

Despite many cultural myths and misconceptions, studies indicate that women are every bit as adept and responsible when it comes to investing and managing money as their male counterparts — and in some cases have qualities that make superior money managers. This is good news because it's also true that women face certain gender-specific challenges to their long-term financial security that make sound, smart retirement planning especially important for them!

Sources:

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