THOMPSON WEALTH MANAGEMENT

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The Unique Retirement Issues Facing Women

Women face at least 12 unique challenges from financial and life circumstances related to long-term retirement planning. Addressing these can be overwhelming and uncomfortable. But, only by understanding the issues can you develop strategies that will provide the greatest chance of achieving your clients' goals.

Specifically, women:

1. Earn less.
2. Live longer.
3. Have fewer years of earned income.
4. Start investing later.
5. Are less confident about their personal finance and investing skills.
6. Are less aggressive investors.
7. Are less satisfied with the current financial advisory industry.
8. Are more likely to bear the physical, emotional, and financial brunt of the "sandwich generation" – caring for both children and elderly parents.
9. If divorced, face specific challenges and obstacles.
10. Are less likely to remarry after a "gray divorce" – divorce over age 50 – or becoming widowed later in life.
11. Are more subject to elder abuse.
12. Are statistically likely to die single, divorced, or widowed.

We explore the impact of these 12 diverse – and yet often interconnected – dynamics and offer solutions for how to address them in a way that leaves women more financially empowered.

On women

First, however, we must clarify that "women" are not a collective group. Each woman is unique in her own right and will have her own personal experiences that may deviate from this list. Additionally, a woman's individual experience will vary with which stage of life she is in – as defined both by age and life events. For example:

• Young women trying to establish good financial habits.
• Breadwinning women who are trying to manage multiple demands on their time.
• Suddenly single women – divorced or widowed, often with limited financial knowledge and/or experience.

Issues facing women

1. Women earn less

The 2016 Senate Joint Economic Committee 2016 report "Gender Pay Inequality, Consequences for Women, Families, and the Economy," found that on average, women earn 21% less than men. Among African American and Latina women the figures are even lower, shockingly so – 40% and 45% less, respectively. These statistics are so often and widely quoted that many people – including women —have become numb to their implications. With that in mind, we will use some examples to demonstrate the magnitude of the problem.

Joe is 25 years old and earns $50,000 a year. For 45 years, he invests a steady $5,000 (10% of his salary) a year in a diversified, low-cost portfolio that generates a 6% real rate of return. At age 70, Joe's portfolio is worth $1 million.

Jane is also 25 years old. She earns 21% less, or $39,500. She also starts out investing 10% of her initial income for retirement in the same portfolio with the same returns. At age 70, Jane's portfolio is worth $830,000 – $170,000 less than Joe's. This assumes Jane never had to take a break from the workforce. As we shall soon see, this is not a realistic assumption. If we re-run the example to reflect a 10-year gap in work history, from age 35 to 45, using the same annual savings rates for years in paid work, Jane's portfolio is worth $435,000 – $565,000 less than Joe's.

This explains why in aggregate retirement data such as that from Vanguard's 2017 study "How America Saves" show that the "average Joe" has nearly twice the retirement savings as the "average Jane."

The above scenario is simplistic. It does not incorporate research by Carnegie Mellon professor Linda Babcock and Sara Laschever, authors of *Women Do not Ask*, showing that men are significantly more likely than women to negotiate their salaries. For example, according to their research, women who do negotiate their salaries end up earning $1 million more over the total tenure of their careers than women who do not. Thus, the reality is that if Joe and Jane were each to contribute 10% of their annual salaries to their retirement savings, versus the simplistic static annual amount in our example, the gap between Jane and Joe's retirement savings would be even greater.

This fact that women earn less than men is only the first domino in a series that, once pushed, will cause a woman's financial planning for retirement to fall flat much quicker than she may realize.

2. Women live longer

The Centers for Disease Control and Prevention puts the average life expectancy for a woman at birth at 81 versus 76 for a man. According to the Social Security Administration, once both genders reach age 65, the expected life span for men is 84, and for women it is 86. Of course, these are median statistics. One out of four 65-year-old individuals will live past 90 and one out of 10 will live past 95. At risk of stating the obvious, living longer means women need more resources to cover a longer retirement. The 2016 study "Gender Gap in Financial Wellness" by Financial Finesse indicates that a 25-year-old female who works full-time for 40 years, retiring at age 65, will need to save 1.5% more every year than a man in order to reach her target savings goals. The report ties the higher number needed for women to increased longevity and associated healthcare costs.

Combine earning less than men with a longer life span and you see why the research by the Social Security Administration has found that more than half of women over the age of 65 rely on meager Social Security payments for over half of their income, and nearly one-third of women over 65 rely on it for over 90% of their income.

3. Women have fewer years of earned income

According to the 2015 study "Women & Caregiving: Facts & Figures" by the National Center on Caregiving, on average, women spend 12 more years out of the paid workforce than men. Women typically care for their children and/or elderly parents.

Financial Finesse, a provider of financial wellness programs to corporations as an employee benefit, has done some interesting research on the effect of the aforementioned factors. Women who take career breaks during the 35- to 45-year-old phase of life often to stay home with children, pay the steepest penalty, having to save at a rate of 25% during their working years to come out at the same place as a man who takes no career break. Next up are 45- to 55-year-old individuals, who are often out of the workforce to tend to elderly parents and, thus, need to save 19% in their working years to match the no career breaker. And even the 55- to 65-year old individuals, who have to leave the workforce to tend to elderly parents need to save at a rate of 16% during their working years.

Spending time out of the paid workforce is the final domino that sets women spinning downwards on a path that once started, is hard to stop. The combined impact of earning less than men, fewer years in the paid workforce, earning reduced dollars, and the need (due to longer life spans) to have more money than men to fund those years, means that women have a significantly smaller margin of error when it comes to planning for their retirement.

Unfortunately, many women are not aware of, or are simply resistant to hearing, these messages.

In 2008, award winning journalist Leslie Bennetts wrote the deeply researched, *The Feminine Mistake: Are We Giving Up Too Much*. The book's title was a play on words of *The Feminine Mystique* – the 1963 iconic classic questioning what life was like for women without paid work that helped launch the feminist movement. *The Feminine Mistake* enraged large numbers of women when Bennetts highlighted that trio of facts. On the response that sadly, Bennett has noted far too many women are unwilling to place their financial well-being as a priority.

4. Women start investing later

Research from the 17th Annual Transamerica Retirement Survey (2016) shows the average age at which women start saving for retirement is 28, versus 26 for men. While a two-year gap may not seem like much, when combined with lower wages and higher probabilities of career gaps, the math of compounding inflicts its damage in a most unfavorable way. Let's return to our average "Joe" versus average "Jane" example and adjust for this dynamic of Jane starting two years later. All else equal, Joe has a portfolio of $1 million at age 70, while Jane's portfolio drops from $435,000 to $380,000. That's a $55,000 "mistake."

Sallie Krawcheck, CEO of Ellevest – an investment firm focused solely on the needs of women – upon reviewing research of a 2017 Ellevest study on the financial habits of women, stated: "Simply put, women do not invest as much as men do. And they do not invest as early as men do." And Sallie should know. As former CFO of Citigroup, CEO of Smith Barney and CEO of Merrill Lynch Global Asset Management, she has been observing women's financial behaviors for quite some time.

Interestingly, some have noted that this propensity to start investing later than men is due to the combination of women earning less than men and the fact that many basic products and services for women (such as shampoo, shaving cream, dry cleaning, haircuts, and so on) are more expensive than men's equivalents. In addition, women are often held to tighter appearance standards than men, forcing them to spend even more on clothes and grooming. Given these facts, a case can be made that women's late start is at least partially due to structural issues.

With that said, it appears that the late start is due to a lack of awareness about the importance of starting early (especially if job disruptions due to child rearing and/or elderly parent care come in to play). Young men tend to talk to each other more often in casual conversation about topics related to personal finance and investing than do women.

5. Women are less confident about their personal finance and investing skills

Another reason women may start saving for retirement later than men can be seen in the data on gender and confidence. Studies have shown that women self-identify as being less confident than men self-identify when it comes to their financial knowledge and skill. Ironically, this is happening despite the same studies showing that the knowledge level of both genders is remarkably similar. However, the research shows that women's confidence levels around that same knowledge level is much lower than it should be relative to actual knowledge possessed, while men's is much higher than it should be given what they actually know. Consider the following evidence from the study by Brad Barber and Terrance Odean, “Boys Will Be Boys,” which appeared in the February 2001 issue of *The Quarterly Journal of Economics*.

Though the stock selections of women did not outperform those of men, women producedhigher net returns because their lower turnover (lower trading activity) led to lower costs and greater tax efficiency. Also, married men outperformed single men. The obvious explanation is that single men do not have the benefit of the spouse’s sage counsel to temper their overconfidence, which leads to excessive trading, negatively impacting returns. It appears to be a common characteristic of human behavior that on average men have confidence in skills they do not have, while women simply know better.

According to data from Vanguard’s 2017 study “How America Saves,” women are actually better savers than men. However, they are less likely to put those savings into investments that are likely to outpace inflation. According to the 2013 study “Women & Investing: A Behavioral Finance Perspective” by the Merrill Lynch Wealth Management Institute, 55% of women report they agree with the statement: “I know less than the average investor about financial markets and investing in general,” versus 27% of men. The July 2017 study “The Gender Gap in Financial Literacy: A Global Perspective,” by the Global Center for Excellence in Financial Literacy, shows that there is a persistent gap in financial literacy between men and women worldwide and that when women are educated about personal finance and investing they make more appropriate choices relative to their long-term needs.

6. Women are less aggressive investors

Analyses of 401(k) and IRA accounts of men and women show there are some distinct gender differences in asset allocation. At nearly every age range, women tend to have more of their portfolio invested in cash and bonds. Some of this may be due to the relentless focus of the broader financial services industry in defining risk simplistically as the “sleep well at night” factor. In other words, if a woman is guided to select her asset allocation based simply on a risk-tolerance questionnaire that asks about expected responses to market drops, women may indicate that they prefer a more conservative portfolio.

However, when women are exposed to a broader definition of risk – one which incorporates the willingness, ability and need to take risk, their viewpoint can change. Unfortunately, in the absence of financial advice that expansively defines risk, women often invest conservatively.

Summarizing, all the evidence points to women leaving a lot of money on the retirement table.

In a world where even slight increases in the rate of inflation can have dramatic effects on the long-term purchasing power of one’s portfolio, it is imperative that those with longer life expectancies have an appropriate allocation to asset classes that have higher odds of outpacing inflation. Yet, due to the combination of lack of confidence and lack of knowledge, many women are investing less aggressively than required. The result is smaller retirement portfolios. Results from the 2018 “Money Census” study by Ellevest show how – depending upon a woman’s salary and the market’s performance – the real cost of what has come to be known as “the investment gap” over a working lifetime can easily add up to over $1 million dollars over a 35-year career horizon.

7. Women are less satisfied with financial advisory services

According to the 2018 “Money Census” study by Ellevest, a mere 17% of women feel they are getting competent financial advice and just 47% feel they know how to achieve their financial goals. Other studies peg the number of women changing financial advisors upon divorce or widowhood at 70%. Clearly, there is a disconnect between what women need (education, advice, guidance) and how they feel about obtaining those things from the financial services industry.

The financial services industry is starting to recognize this, as evidenced by the plethora of “women and wealth” initiatives. However, women’s satisfaction is not growing – perhaps because the upper echelons of the financial services industry remain dominated by men. As a result, many aspects of the financial advisory process, ranging from marketing efforts to client servicing (such as golf outings or investment pitches focused on returns versus life goals), are designed to appeal to men over women.

For many women, interacting with the financial services industry feels like walking into a sports locker room or a men’s smoking club. As more women-owned and women-friendly financial advisory firms start up, this dynamic is slowly starting to shift.

Key factors that women look for in an advisory relationship include transparency around fees, trust in the advice, education and community. These last two items differ from what men tend to seek. The financial firms that are able to provide education and community going forward are the ones that will win the lion’s share of women’s retirement assets. This is vital as the research shows clearly that when women are financially educated they make solid financial decisions regarding retirement preparedness.

8. Divorced women tend to face unique challenges and obstacles

Historically, from a financial perspective, divorce has impacted women far more than men. According to the American Sociological Review study, “A Re-Evaluation of the Economic Consequences of Divorce,” which appeared in the June 1996 issue of the *American Sociological Review*, the average woman’s standard of living drops 27% after a divorce, while the average man’s increases 10%. There are a variety of reasons for this. Among them are that women tend to remain the primary caregivers of children, and if they are working outside the home tend to earn less than men.

There are also some common mistakes that women lacking competent financial advice during the divorce proceedings make that exacerbate the financial pain of divorce. The following is a list of mistakes that are particularly important for women to avoid:

• Insisting on retaining the marital home when she cannot afford it;
• Believing that retirement assets have the same value as an equal dollar amount of nonretirement assets;
• Believing that a 50/50 division of property is always an “equitable” division;
• Not understanding methods or tax implications of dividing stock options;
• Failing to consider the cost basis of property;
• Not understanding the purpose of a Qualified Domestic Relations Order, or the need to get it completed and filed at the time of the divorce, or immediately after the divorce is final;
• Not protecting spousal and child support payments through life insurance;
• Failing to factor in inflation and investment returns when looking at the long-term impact of a settlement or using unrealistic numbers in the evaluation; and
• Not understanding how to divide debt.

Just one of these mistakes can have severe long-term consequences for women’s financial health. Unfortunately, in the absence of solid financial guidance during the divorce process,mistakes are not limited to just the ones on this list. As a result, there is an increase in the number of financial advisors who are obtaining the Certified Divorce Financial Analyst(CDFA) designation. Those are advisors who have gained the specialized knowledge to help individuals navigate the financial repercussions of divorce.

9. Women are more likely to bear the brunt of the “sandwich generation” (Simultaneously caring for children and elderly parents)

According to the 2015 National Center on Caregiving brief, “Women & Caregiving: Facts & Figures,” 20% of working women are engaged in elder care. The professional consequences of balancing the conflicting demands of eldercare and work are substantial. The 1999 paper, “The MetLife Juggling Act Study: Balancing Caregiving

With Work and The Costs Involved" by MetLife Mature Market Institute, National Alliance for Caregiving & The National Center on Women and Aging, found:

• 33% of working women decreased work hours.
• 29% passed up a job promotion, training, or assignment.
• 22% took a leave of absence.
• 20% switched from full-time to part-time employment.
• 16% quit their jobs.• 13% retired early.

According to the 2014 Kaiser Family Foundation, *New York Times* and CBS News "Non-Employed Poll," many women who are staying home with children full-time would prefer to be working if only they had the option of flex-time or the ability to work from home. Therefore, it is the lack of societal support and infrastructure for providing this care that forces them to choose caring for loved ones over preparing for their financial futures.

The 2006 Bureau of Labor Statistics study "The Sandwich Generation: Women Caring for Parents and Children," looked to quantify the costs of being part of the sandwich generation. The authors estimated that 20 million American women are in this state (generally between age 45 and 54) and that they are responsible for $18 billion of intra-family transfers and 2.4 billion of unpaid hours worked for caregiving. As the population has aged, the problem has intensified and costs increased. The 2011 "The MetLife Study of Caregiving Costs to Working Caregivers" found that 10 million over the age of 50 care for their aging parents, a number that has tripled over the past 15 years. Providing this care has both emotional and financial implications.

10. Women are less likely to remarry after "gray divorce" or becoming widowed later in life

According to 2017 study "Led By Baby Boomers, Divorce Rates Climb for America's 50+ Population" by the Pew Research Center, divorce rates for people over the age of 50 have nearly doubled since the 1990s. Their research also indicates a higher percentage of men in this cohort remarry than do women. Roughly twice as many men as women say "they wish to remarry" (29% versus 15%) and nearly twice as many women as men say, "they do not wish to remarry" (54% versus 29%).

The 2017 study "Who is At Risk for Gray Divorce" from the Institute for Family Studies found that compared to married couples, gray divorced women have relatively smaller Social Security benefits and relatively higher poverty rates. For example, while gray married, remarried, and cohabiting couples have poverty rates of 4% or less, 11% of men who divorced after the age of 50 were in poverty, while 27% of women were in poverty. The implication is that women not only have statistically lower odds of finding themselves in a two-income household after a gray divorce, but they are also less likely to have some of the harder-to-quantify types of support that come from being part of a coupled household, notably elder care from a spouse as they age.

And it's not just divorced women who must face the challenges of being alone. According to the 2017 study "Facts on Widowhood" by the Women's Institute for a Secure Retirement (WISER), a third of women who become widowed are younger than age 60, and half of all women who will become widowed become so by age 65. Should gray widows wish to remarry, the odds are against them. According to Deborah Carr at the Institute for Health at Rutgers University, as reported in the October 7, 2016 *New York Times* article "The Gray Gender Gap: Older Women Are Likelier to Go It Alone": "With 2.55 women for every man among unmarried people over age 65, and 3.27 unmarried women for every unmarried man over 85, "a man who wants to remarry has a very large pool."

The implications of this are stark. As per WISER: "Older widows, women who become widowed after age 60, are usually in a more precarious financial situation unless they have substantial savings, pensions, or life insurance due to choices made long before they become widowed. At retirement age, the woman can choose to collect Social Security benefits as the spousal benefit (half of her husband's benefit) or on her own work record.

Most often, the woman collects Social Security as the wife of a retired worker because all retirement benefits are based on lifetime earnings, and men generally earn more in a lifetime than women."

The problem is that although a widow receives the greater of her Social Security benefit or her husband's, she does not get both. Therefore, the combined Social Security income often decreases by one-third to one-half. WISER noted that this contrasts with "official income projections that assume that a one-person household needs 80% of their original income to achieve the same standard of living that the couple had. This is the widow's first step into the spiral of poverty."

11. Women are more subject to elder abuse

As elder care specialist and advocate Carolyn Rosenblatt has noted, women are much more subject to elder abuse than men. Part of this is due to the fact that women live longer than do men and are thus more likely to live alone when most vulnerable. Other reasons – at least up until now – have included women heading into their golden years without ever having taken significant responsibility for their household finances (in particular investments). If that is theircase, they will be less aware of how to assess financial choices presented to them. Sadly, another factor is that many crooked financial salespeopleactively prey upon older women, viewing them as easy targets.

According to research from New Hope for Women "Elder Abuse & Women – The Facts":

• Two-thirds of elder abuse and neglect victims are women.
• The median age of elder victims is 78 years.
• One-third of all elder victims are abused by their children.
• Neglect is the most common form of elder abuse in domestic settings, accounting for over 50% of all reported incidents.

Rosenblatt highlights these seven steps we can take to protect our elderly parents, which again, will most likely be our mothers:

• Check in often. If your aging parent lives alone this is crucial.
• Ask to be a co-signer on the main bank account in case of emergency.
• Have your parent sign a Durable Power of Attorney appointing a competent and ethical agent, which could be you, a sibling, or trusted other.
• Suggest having your parent use a licensed fiduciary to handle money if they do not want you to do it.
• Provide and encourage parents' connection to others.
• Monitor who comes into your parents' home regularly. Even the most trusted housekeeper, gardener, caregiver, or bookkeeper can be tempted when their own financial circumstances change for the worse.
• Do background checks on any home care helpers who are hired to work for Mom or Dad.

We would add the creation of a protective "tribe" of people (such as relatives, friends, neighbors and professionals) who would "swing into action" if needed. Make sure they are introduced to each other and empowered to communicate and establish checks and balances among them. A tribe member may receive duplicate account statements to detect suspicious activity. In addition, a credit freeze could be placed on their credit file.

12. Women are statistically likely to die single, divorced or widowed

As Sallie Krawchek, has noted: "Check the gender mix at your local nursing home: 80% of women die single, and they're also 80% more likely to be impoverished in retirement than men." If you want further proof, spend a week looking at the obituaries in your local newspaper to see how many men are survived by spouses and how few women are.

The implication is that women have less support, both financial and emotional, as they age. Living longer means they need more funds. Living alone means their households have fewer people contributing income into them. Living alone in one's elder years also means that outside paid help is more often needed and that there might also be less emotional support,which can make a difference in life satisfaction. The last domino to fall, this one may be the saddest of all.

Solutions

The call to action is out and it is loud. With the right knowledge and the right actions, women can mitigate the impact of the above trends on their financial lives. To reiterate an earlier point, when women are educated about personal finance and investing, they make better decisions. The following checklist will increase retirement preparedness:

Financial empowerment checklist

• **Basic numbers:** Be sure women know their household's income, expenses, assets, and liabilities. They should have access to all online account information including bank accounts, credit cards, loans, and life insurance policies.

• **Investments:** Women must know where all their investment accounts are, what investment strategy is being used, and what asset allocation has been implemented.

• **Documents:** Women must know where all their household's key financial documents are, including wills, durable powers of attorney, healthcare directives, home/car titles, and so on. Know the location of the safe deposit box and how to access its contents.

• **Advisors:** Women should meet all of their family's advisors: financial advisor, estate attorney, accountant, insurance agent or broker. And be sure to understand at a big picture level the game plan each have set for your household.

• **Retirement analysis:** Women should work with a financial advisor or use online free programs such as the government's "Ball Park Estimator" to understand clearly how much they will need to have saved to maintain their standard of living in retirement. If already retired, work with an advisor to understand how much you can comfortably afford to spend without running out of money.

• **Insurance:** With the expectation of living longer, women should consider if they have the proper insurance (such as longevity and long-term care) in place to minimize the risk of outliving their assets.

• **Self-educate:** Take financial education classes through local adult continuing education, use free online resources such as The Kahn Academy, or read basic primers on personal finance to start the self-education process.

• **Negotiate:** Take an online course in how to negotiate salary such as those taught by "She Negotiates" or "Take the Lead."

Other more systemic solutions that need to be addressed collectively to support women as a community include:

• Closing the wage gap;
• Providing more systemic support for childcare and elder care; and
• Increasing the availability of basic financial education in high schools or college.

Everyone can support these initiatives through your legislators. There are governmental task forces looking into each of these as well as private non-profits to which you can donate. The more people raise the issue of addressing these systemic issues, the more women will benefit. The goal should be to make it easier for women to overcome the hurdles to achieving their retirement goals.

Sadly, women continue to face financial and life headwinds that make preparing for retirement even more challenging than for men. Consequently, the earlier a woman becomes aware of these factors, the more effective she will be at making the choices that will best position her for retirement success.

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