

Complementary paths to retirement: How men and women can learn from one another

Executive summary

Numerous research studies show that gender strongly influences the path women and men take to plan their retirement. Evidence suggests that women are more likely to enjoy retirement and feel more excited and enthusiastic about their retirement journey. They also seem to have adapted the necessary skill set to help them cope with the transition to this important milestone.

Yet for women, there are also additional challenges in preparing for retirement as a result of their lower earnings, caregiving responsibilities and relative longevity.

In this report, the BMO Retirement Institute takes a closer look at gender differences in men's and women's approach to retirement planning and suggests ways in which they can learn from one another to improve the outcomes of their retirement by adopting each other's positive characteristics and successful behaviors.

The BMO Retirement Institute was established to conduct research and provide thought-provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

Tina Di Vito, CA, CFP, TEP
Head, BMO Retirement Institute

Contact the Institute at
bmo.retirementinstitute@bmo.com

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Introduction

Empirical evidence shows that retired men and women would like more of the same things in life: good health and more free time with family.¹ But often that is where the similarities come to an end.

Retirement is typically presented as a “couple” experience – a stage of life that men and women share with their partners. However, as explored in our last BMO Retirement Institute report, the reality is that retirement is often lived alone, whether by choice, or as the result of divorce or the death of a spouse.² In 2010, about 8.3 million women aged 65 and over in the United States were living alone, compared to 3.0 million men aged 65 and over. Moreover, half of older women age 75 and over lived alone.³ Men who find themselves alone in retirement, by contrast, are more likely to find another partner.

Unique challenges that women face as they prepare for retirement

1. Lower earnings equate to lower pension benefits or 401(k) balances

Not only are women more likely to navigate retirement alone, but they also tend to have accumulated a smaller retirement nest egg. This is because women continue to earn less than men during their working years. In 2010 women earned just 81 cents for every dollar earned by men,⁴ which means, since retirement savings are directly related to earnings, that women are likely to have accumulated less for retirement than men. A study calculated that a typical college-educated woman in her mid-40s had already “lost” a total of \$440,743 in wages over her lifetime – an amount that could have added up to a comfortable retirement nest egg.⁵ Fortunately, the situation is improving, and women have been closing the gap quickly over the past ten years, which bodes well for the future. However, 10.7 percent of women aged 65 and over are now classified as falling below the poverty line as opposed to only 6.6 percent of senior men.⁶

2. Women have more intermittent work histories

Women are also more likely to interrupt their employment to accommodate their role as the family caregiver. In addition, women are more likely to have part-time jobs, which often have limited benefits, including pension benefits. Working part-time, spending fewer years in the workforce and earning relatively less all mean that women retirees will generally have smaller pensions or 401(k) balances to rely on. The retirement savings of single women trail behind those of coupled women, regardless of age and employer type.⁷

Unique challenges women face planning for retirement

- Women are living longer than men
- Lower earnings equate to lower pension benefits or 401(k) balances
- Women have more intermittent work histories
- Widowhood or divorce can reduce women's retirement income

A greater percentage of men describe their retirements as “very or somewhat successful.”

Things may change, however, for the next generation of female retirees. As a result of social, political and technological developments, the younger generation of women are participating in and returning to the workforce more than ever before.⁸ Greater flexibility in work schedules and the increasing trend of male parents taking parental leave are allowing women the opportunity to balance both a personal and professional life, which may have a positive impact on women's ability to save for retirement.

But for now, a woman's smaller retirement nest egg has to stretch further, because women tend to live longer than men. Once a woman reaches the age of 65, she can expect to live until she is 85, about three years longer than the life expectancy of a 65-year old man.⁹ A longer lifespan puts a higher demand on household resources - not just for basic living expenses but, as one gets older, for any extended health care and long-term care that may be required. Men have health care needs, too, of course, which just exacerbates the problem. Since the male spouse has a shorter life expectancy and tends to be older to begin with, a couple's retirement funds could be depleted sooner as a result of the need to care for the man, leaving even less for the surviving female spouse. In addition, while the male spouse is likely to rely on his wife as his main caregiver in old age, the female spouse is more likely to turn to professional care in her time of need.

3. Widowhood or divorce can reduce women's retirement income

Women in particular are likely to be on their own in retirement: the average age of widowhood for women is 55.¹⁰ By age 85 there are roughly six women to every four men. At age 100, the ratio is more than two to one. And by age 122, the current world record for human longevity, the score stands at one-nil in favor of women.¹¹

With the death of a spouse, women often experience a steep drop in income, resulting from a cut in the spouse's employer pension benefits and Social Security benefits.

Divorce can also impose a harsh financial toll on a woman: in the first year after a divorce, twice as many women than men had an income below the poverty level.¹²

All of these factors may help explain why a greater percentage of men describe their retirements as “very or somewhat successful.”¹³ Men are more likely than women to say they are very confident about several aspects of retirement. More so than women, men tend to feel very confident that they will have saved enough money to live comfortably throughout their retirement, are doing a good job of preparing financially for retirement and have enough money to take

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care of basic expenses and medical expenses.¹⁴

To shed light on these differences, we need to examine the gender differences in men’s and women’s approach to retirement planning. Not surprisingly, men and women exhibit differences in their attitudes towards money.

Confidence, knowledge and planning

Women, generally, are less confident in their knowledge about finances than men, regardless of whether this lack of confidence is justified, and this uncertainty extends to retirement planning. For example, when asked about IRAs, Roth IRAs, Rollover IRAs and Social Security, a higher percentage of men than women responded that they were very or somewhat knowledgeable about each of the four retirement options.¹⁵

Women are also generally less confident in their knowledge and understanding of financial products and services. Overall, nearly three quarters of men surveyed felt at least somewhat knowledgeable about financial products and services, while only 54 percent of women felt the same.¹⁶ Financial knowledge is directly related to one’s involvement in planning for retirement: people who are knowledgeable about financial products and services are over three times more likely to report that they are very involved in monitoring and managing their retirement savings than people who are not knowledgeable.¹⁷

For example, men are more likely to monitor their finances, which may explain why more men than women (55% versus 47%) updated their financial plan within the past year.¹⁸ Women could benefit by adopting a similar approach and become more engaged in financial planning. At the same time, men could take a cue from women and make financial planning a priority: men are more likely than women to claim the reason they don’t have a plan is because they don’t consider it a priority.¹⁹ Men and women can therefore learn from each other to improve the outcome of their financial future.

Risk tolerance

When it comes to investing, as with many other things in life, studies indicate that men are more likely than women to take risks. Women tend to trade less frequently, hold less volatile portfolios and expect lower returns than men do.²⁰

Generally, men are also three times as likely as women to describe their investment style as “aggressive,” while women are more likely than men to describe their investment style as “pragmatic”

Both women and men report that having enough money to survive on a fixed income is their top concern.

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or “conservative.”²¹ This is reflected in the investment vehicles they choose. Men are more likely than women to have investments, period – whether in stocks or certificate of deposits - or to be enrolled in their company’s retirement plan.²²

For men, risk is often equated to market volatility. In retirement, men also tend to be more concerned about the impact of inflation on their portfolios. Women see risk through the prism of lifestyle, being more likely to worry about having enough money to survive or being able to have affordable housing.

The willingness to assume a reasonable level of risk allows men to achieve relatively higher growth in their retirement savings. Even in retirement, people need to plan for growth in their investments in order to offset the impact of inflation. Women generally could benefit from having somewhat higher risk tolerances.

Fear, the greatest motivator

Both women and men report that having enough money to survive on a fixed income is their top concern when it comes to living in retirement.²³

Fear is sometimes the greatest motivator, and women seem to have a healthy dose of fear about the future. They are more pessimistic than men about their prospects. The vast majority of women reported feeling financially insecure, even if more educated, or more involved in financial decision-making. Women feel a much greater sense of concern and anxiety across all categories: economic security, ability to keep up with the cost of living, not having enough money to retire and not saving enough for retirement.²⁴ Overall, women are more worried than men about the financial situation they will face in retirement.

If the fear results in paralysis, then it serves no good purpose. If, however, it prompts action, it can be a positive force. If women’s fears about debt load prompt them to avoid or reduce debt leading up to retirement, that is a good thing. Financial professionals encourage their clients to enter retirement as debt-free as possible.

Willingness to seek advice

Although men and women have similar propensities regarding the existence of a financial plan, they differ in respect to plan execution and resources utilized. Men have a tendency to “go it alone” when formulating these plans.

Nearly half of the men surveyed said that when it came to retirement planning, “I can do this by myself,” compared to about a third of the women.²⁵ Men are simply less willing to seek the advice of others,

Women are more likely to follow advice from a financial professional.

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whether asking for directions while driving a car or when they are looking for a roadmap to retirement.

Is there a price to be paid for this self-reliance? One-third of men and two-fifths of women admitted that they would need help with retirement planning.²⁶ Retirement planning is complex. There are many forks in the road, and taking a wrong turn along the way can quickly lead to a dead end. Advice from a professional financial advisor can steer you in the right direction. Women, it seems, are more likely than men to follow that guidance, and that helps them avoid costly mistakes and stretch their savings, even if their overall savings tend to be less than men's. The value of financial planning is clearly evident in a study that revealed that Americans with a financial plan are more upbeat about their personal economic outlook. People with a financial plan are more confident that their finances are synchronized to meet their goals.²⁷

Who is my advisor?

When selecting a financial advisor, women look for honesty and listening skills, and for someone with good teaching skills. Women seek advice that is tailored to their unique situation. Ninety percent of women expect their advisor to provide education and guidance rather than "sell them on effective investment practices."²⁸ Men, by contrast, tend to seek out those with the best fees, those with the best tools and those with a broader range of products.

Financial expectations

Finally, women appear to have lower expectations than men about how much they will need in retirement. Fifty-five percent of men say they will need \$1 million or more for retirement, while only 36 percent of women say they will need that much. Women are also more uncertain than men about how much they will need. Interestingly, twice as many women as men admitted that they just don't know how much will be required.²⁹

There's more to retirement than money

There are notable differences, too, in the way men and women respond to the non-financial changes brought on by retirement.

Historically, men's identities have been very closely tied to their work. If they haven't replaced work with something that gives them a sense of purpose during retirement, it can have negative outcomes: retired men are at an increased risk for depression and anxiety.³⁰ There is evidence to suggest that a woman's life experiences prepare her better for retirement, when "the job" no longer takes center stage. Indeed,

When life slows down, couples can discover that they don't have as much in common as they used to.

nearly two-thirds of women ages 40 to 79 have already dealt with a major life crisis, such as job loss, divorce, the death of a spouse, or serious illness.³¹ Women's identities are still very closely tied to the relationships they have built nurturing their families. A lifetime of caregiving equips many women with a sense of purpose that will last into retirement.

Couples who lead very busy and hectic lives raising children or pursuing their careers will spend a lot of time going in different directions. Perhaps one person is at home and the other is working, or both are working. Suddenly, when life slows down and they start spending a lot of time together, they can discover that they don't have as much in common as they used to. With more and more women working than previous cohorts, many more have the financial wherewithal to live independently. The social stigma of divorce is certainly not as strong now as it was in previous generations, and some people, realizing that their retirement could last 25 years or more, may decide they don't want to spend it with someone with whom they no longer have anything in common.

Differing expectations	Men	Women
Money represents	status	sense of security
Sense of self purpose from	work	relationships
Social support from	spouse	family, friends, and spouse

While men may spend more time planning their retirement finances, they would be wise to make plans about what they intend to do in retirement to fill their days. If men are counting on their spouses to keep them busy in retirement, they may be surprised to find that women have already figured out how they will pass the time – and it may or may not involve their partner. Women have developed strong social support networks with family, friends and their husband. If women are going to spend more time living alone, these connections will be vital.

Men and women complementing each other

We have compared the behavioral differences exhibited by women and men that affect their efforts in planning for retirement. The lesson to be learned is that both sexes complement each other, and can improve the outcomes of their retirement by adopting each other's positive characteristics and mitigating those traits that obstruct them from planning for and enjoying a successful retirement.

Women may want to consider being more proactive in enhancing their level of financial literacy, and more engaged in the process of financial planning. It would be helpful to start planning early to ensure a financially secure retirement. It is also important to be aware of and understand the dynamics that may put them at a disadvantage at retirement: lower lifetime earnings, caregiving responsibilities, longer life expectancy and the potential need for health care and long-term care. With an elevated level of confidence in financial matters, women may be more willing to adopt a more aggressive stance in their investment approach that can improve the long-term sustainability of their retirement assets.

Men, on the other hand, could benefit from being more receptive to advice from experts and by being more sensitive to their financial limitations. It is important for men to listen to the fears expressed by women; if they did so, they would be more likely to live within their means and enter retirement debt-free. Men would do well to keep in mind that retirement is a life event as well as a financial event, and that preparing for the social aspect of retirement is equally important as preparing for its finances.

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