Independent Investor

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Women and Retirement: What You Need to Know

More than half of women (53%) surveyed recently are the primary breadwinners in their households, yet only 20% consider themselves "very well prepared" with their financial decision making.[1]

Nearly one-third of those surveyed said they earn more than their spouse as a direct result of the rocky economy. Among male breadwinners, 45% consider themselves "very well prepared" with their financial decision making.

Educating themselves about investments and long-term planning can help women feel more comfortable with riskier—yet potentially more rewarding—investments. As more women enter the field of financial advising and planning, female investors may also be more inclined to seek advice from other women.

Why Women Need to Save More Now

Women typically spend more years out of the workforce to care for family members. Although this trend doesn't apply to single women as much as married women, it is still a factor for all women. At some point, your parents or another relative may need you to chip in and help out. It is estimated that, on average, women spend seven years out of the workforce to care for family members.[2]

People often don't realize how leaving work can impact retirement. Traditional pension plans are generally determined by years of service. So leaving work for periods of time often means lower retirement benefits. In fact, the Employee Benefit Research Institute reports that the average annual pension benefit of a woman aged 65 is $12,137 compared with $19,557 for the average 65-year-old man.[3] Furthermore, only 29.4% of women over 65 receive pension benefits at all.[3]

Making the financial challenge more complex, women, on average, live five years longer than men, according to the National Center for Health Statistics. Therefore, they tend not only to have longer retirements and need to prepare financially for more years in retirement than their male counterparts, but they also must consider the fact that a couple's retirement savings may be diminished by health care costs for the spouse who dies first.

As a result of some of these factors, women may also receive lower Social Security benefits than men. Social Security benefits are calculated based on a person's highest 35 years of earnings. If a benefit recipient does not have 35 years in the workforce, the Social Security Administration will add zero-earnings years to his or her record to equal 35 years. This will lower the average monthly earnings figure and may result in lower benefits for women who have not worked for a total of 35 years.

Working Toward a Solution

There are a number of steps women can follow when planning for a comfortable retirement:

- Carefully consider how much risk they are willing to take in exchange for the potential to earn higher returns. Historically, equity investments have provided higher returns than less risky investments like money markets and short-term bonds over the long term, although past performance is no guarantee of future results.
- Obtain information about the retirement benefits that are available through their employer, and actively participate in any plans offered.
- Seek education about the investment vehicles that can help them reach their retirement goals. An investment professional is an excellent source of information and guidance to sort through the many choices available.

- Contact local professional/trade associations, women's groups, community colleges and adult education centers for information on investment or personal finance seminars taking place.

Most importantly, women need to recognize the unique challenges they face and start saving and investing as early as possible to overcome them.

[1]Source: Prudential, "Financial Experience & Behaviors Among Women," August 2012.
[2]Source: U.S. Department of Labor, 2009 (most recent data).
[3]Source: Employee Benefit Research Institute, "Retirement Annuity and Employment-Based Pension Income, Among Individuals Age 50 and Over: 2008" (most recent data available). Published May 2010.