

Unique challenges women face in retirement planning

This article has been brought to you by the BMO Retirement Institute. The BMO Retirement Institute was established in 2008 to provide thought provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

Research shows that gender strongly influences the path women and men take to plan their retirement. While retirement is typically presented as a “couple” experience — a stage of life that men and women share with their partners — the reality is that retirement is very often lived alone, whether by choice or as the result of divorce or the death of your spouse. In 2001, more than 1,500,000 women in Canada were living alone, more than double the total in 1971, and among them, senior women were the most likely to be on their own.¹ By contrast, men who find themselves alone in retirement are more likely to find another partner.

There are unique challenges women face when planning for retirement. Along with the likelihood of living alone in old age, as already mentioned, the fundamental issues are that women work fewer years, earn less, live longer and tend to lack confidence in investing.

An understanding of the manifestation of these unique challenges can help you avoid or work around the barriers impeding your retirement plans.

Smaller nest egg

Women tend to accumulate a smaller retirement nest egg. This is due to a number of factors: women continue to earn less than men during their working years; women are more likely to interrupt their employment to accommodate their role as the family caregiver and, as a result, take more leaves of absence and are more likely to quit their jobs altogether; and women are more likely to have part-time jobs, which often have limited

benefits, including pension benefits. One strategy is to join employer retirement plans as soon as you become eligible and take advantage of matching contribution programs offered by your employer. Ask your employer if they can accommodate you with a more flexible work schedule if the need arises.

Women are living longer

Since women tend to live longer than men, their smaller savings have to stretch further. Once a woman reaches the age of 65, she can expect to live until she is 86 — about three years longer than a 65-year-old man. 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 survivor.

Therefore, women should consider products that provide income for life for part of their portfolio, to reduce the risk of outliving their assets.

Confidence in investing

When it comes to investing, as with many other things in life, studies indicate that men are more likely than women to take risks. Generally, men are also twice as likely as women to describe their RRSP investment style as “aggressive,” while women are more likely than men to describe their investment style as “conservative.”²

This is reflected in the investment vehicles they choose. Men are more likely than women to have investments, period, and they are more likely to hold mutual funds and stocks in their investment portfolios, whereas women are more likely to hold GICs.³

¹ *Women in Canada: A Gender-based Statistical Report*, Statistics Canada, 2005.

For men, risk is often equated to market volatility. 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. Take the time to educate yourself. There is a wealth of information available in magazines, books and seminars on investing for retirement.

Learn how much cash flow you will need to maintain a comfortable retirement

The big question is whether your sources of income, like the Canada Pension Plan and Old Age Security, combined with your retirement savings and perhaps an employer pension plan, will provide enough for a comfortable retirement.

Factors affecting cash flow in retirement

Length of retirement	How long will you be dependent on your savings to provide cash flow?
Investment rates of return	How much risk are you comfortable with to maintain the cash flow?
Impact of inflation	Will the influence of increasing costs of living reduce the purchasing power of the cash flow?

Look at what sources of retirement income you can count on and what you can expect to receive from them.

Consider the factors that could affect your cash flow to avoid any surprises in retirement.

Many women face challenges meeting retirement income needs, but educating yourself will help you choose saving strategies and investments wisely. Starting to plan now will give you more options later. Working with a Investment Advisor can certainly steer you in the right direction and provide you guidance in mapping your retirement and avoiding costly mistakes.

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² BMO RRSP Survey, Harris Decima, December 2010.

³ BMO Retirement Income Planning Survey, Leger Marketing, December 2010.