Closing the Retirement Gap for Women

"He who dies with the most toys wins!"

So proclaimed bumper stickers in the 1990s, usually seen on the back fender of a Mercedes or a BMW. This declaration spoke to the rampant consumerism of the decade when the stock market was growing by double digits, and it was almost impossible to get a dinner reservation in Manhattan. But, in one regard, the slogan missed the mark completely. Rather than the winner being a "He," it would have been more accurate to say "She." Because women generally outlive their male counterparts, she is the one who gets all the toys after he's gone. In the game of wealth accumulation, she is likely the ultimate winner.

Inherited assets, along with women's increased workforce participation, have women on track to become the wealthier gender sometime in the next five to ten years. But when we take out the "spillover effect" – the wealth created by others' efforts or fortune – the situation can look very different for women. In fact, the face of poverty in our economy is most likely to be that of an elderly single mother.

Americans' readiness for retirement has become a cause for national concern, but far more serious are the retirement prospects for women. According to a study released by the Brookings Institution in 2010, the median female worker near retirement held $34,000 in a 401(k) or IRA, whereas her male counterpart held $70,000. This discrepancy is not due to women saving less: their contribution rates to retirement plans are similar if not slightly higher than men's. The problem is instead a result of women spending less time in the workplace and earning lower wages.

In short, women need more for retirement due to longer lives, but they usually accumulate less.

What can be done to close this gap? Many would say the answer lies in getting women to overcome their female preference for more security and to invest more aggressively. All else equal, women need to take on more risk in their portfolios than their male counterparts, in order to grow their financial capital to meet their greater lifetime needs. Unfortunately, however, taking on more investment risk also means that whatever a woman has accumulated can be decimated or seriously eroded by a major bear market, leaving her with even less on which to retire. There is evidence that women – both young as well as those near retirement – are more reluctant now in 2011 than they were in 2001 or 1991 to take additional risk in their retirement accounts as a strategy to accelerate the growth of their assets.

Hard problems sometimes require a new perspective. If we focus only on the accumulation of monetary assets for retirement, it is probable that many women will fall short for years, if not decades, to come. Suppose instead we were to enlarge the notion of retirement capital from its usual reference to our 401(k) or IRA balances, and consider in addition two other forms of capital -- resources that women have in abundance, to an extent equal to, if not greater, than men.

We are talking about human and social capital. The first – human capital – represents the education, skills, training, and experience that each of us can use to generate earnings over our lifetimes. Women's human capital has grown substantially over the last thirty years: they are now earning more college and graduate degrees than men, and recently overtook men as the majority gender in workplace. Furthermore, the percentage of women in managerial and executive positions has been growing, albeit slowly. Smart management is beginning to recognize the advantage of having a woman's perspective as part of leadership. It has even been demonstrated, in a study by Catalyst, that having more women at the top of an organization increases its profitability.

The other form of wealth -- social capital -- consists of all the connections we make with family, friends, neighbors, community, and networks. These connections provide us with emotional, spiritual, and physical sustenance, and can keep us well and productive throughout our lives. This kind of capital can be essential to women, particularly in retirement when the majority of them will be single, often living alone, and/or needing assistance with the tasks of daily living.

When it comes to investing in human and social capital, women do need to get aggressive. They need, for example, to ask for more in the workplace – raises, promotions, flexibility – and have the confidence that their requests are justified. They need to understand the costs of being out of the workplace, and find ways to keep their skills sharp and marketable if they choose to be stay-at-home caretakers. They need to understand what resources are available in the community -- such as shared or cooperative housing, medical services, transportation assistance – to prepare themselves for a safer, healthier retirement.

The returns to such investments in these alternative forms of capital can be much greater than, say, an investment in a high growth fund. Further, the risks are far less. Retirement security for women is not completely a matter of what she has saved in her IRA, or what she may inherit from a partner. It's not just what she has, but what she does. Our job as advisors to women is to maximize all the resources she has available.