Financial Security in Retirement: Whose Responsibility?

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Are Americans assuming personal responsibility for their financial security in retirement? Are Americans knowledgeable enough to manage their personal pension plans and evaluate investment options? If we examine research about Americans' savings and investing for retirement, the answers are "no". Both genders appear to be preparing inadequately for retirement, with women less prepared than men. This article addresses the need for Americans, especially women, to assume personal responsibility for financial planning and investing for later years of life. Gender differences in the financial retirement preparation process are highlighted. Factors affecting preparation for financial security in retirement are examined and implications given for consumer educators.

As the year 2000 approaches, the American dream of retirement may be obsolete, particularly for women. The huge group of Americans approaching mid-life is not saving and investing enough to insure economic security in old age (Hayes & Parker, 1993; Kadlec, 1994; Pope, 1994). Phillip Longman (1996) predicts that if middle class Americans do not radically change their lifestyles, they are headed toward insolvency. There appears to be a definite gap for both genders that exists between their perception of the retirement dream and economic reality. Sources of income that today's retirees depend on are rapidly changing.

Financial Status of Today's Retirees

For today's retirees over age 65, Social Security provides a major source of income for three out of five persons. It is the only source of income for many elderly women (Kilpatrick, 1997).

The savings picture for today's retirees is not adequate, with half of all retirees who retired in the late 1980's having less than $10,000 in savings, excluding their house and a car (Select Committee on Aging, 1992). For retired women, savings status is very low. Currently the median income from assets for women age 65 and older is only $1,059 a year (Hounsel, 1996).

Retired women have a bleak financial picture. The risk of being poor in old age is 70% greater for women than men. African American women are more likely than white women to be poor

(Perkins, 1993). For women, being married has been the most significant factor in income security for women in their later years (Kilpatrick, 1997). Divorced and never married women over 65 are five times more likely to be in poverty than married women (Select Committee on Aging, 1992).

Importance of Savings

A paradigm shift has occurred in retirement income funding. The three-legged stool of retirement income (Social Security, employer pension plan, and personal savings) has become unstable. The most important leg has become personal savings, with less important legs being Social Security and pensions. If savings are not adequate, part-time earnings may be needed to supplement income. No longer can Social Security or the employer be depended on to provide retirement income. It is up to the individual to plan for financial security in later years; however, people, especially women, do not seem to be doing this (Kilpatrick, 1997).

Women's Responsibility for Future Financial Security

Several factors point out the need for women to be responsible for their later years. Women live longer than men and are poorer in retirement; yet they save less (Hayes & Parker, 1993; Kilpatrick, 1997; Perkins, 1995). Women have not traditionally taken financial retirement planning as part of their role. Their failure to prepare for retirement begins early when they fail to see its importance (Hayes & Parker, 1993).

Longer lives

The retirement phase today can be a third of a lifetime. This longevity shows the need to plan for a long-term future, not just a few years. Both genders are living longer, and women most often live alone during later years (Merrill, Lynch & Co., Inc., 1995). Women are alone due to widowhood, higher incidence of divorce, and the increased numbers choosing to remain single.

Role definition

Psychosocial issues are aspects of society's socialization patterns. Males and females are socialized from birth into different role expectations, although in recent times gender meanings and roles are blending (Levinson, 1996). Women's roles in America have emphasized inferiority, dependence, and passivity.

Psychosocial factors can be as important, or more so, than the economic factors that affect women's retirement savings (Jordan, 1988; Kilpatrick, 1997; National Center for Women and Retirement Research [NCWRR], 1994). Men are more comfortable with financial decision making and competitiveness than women. They have traditionally held primary responsibility for providing for the family and their financial future. Women often have not assumed these roles and have felt someone (usually their spouse) would take care of them. With today's reality, women must gain confidence in making financial decisions and assume responsibility for their future financial security.

Women are making strides toward financial independence. In a 1993 survey on women and self-esteem, NCWRR (1994) found that women had more confidence in their capabilities in money management, greater interest in financial matters, and more realistic attitudes about money than in previous surveys. Kilpatrick (1997) found that single women were pro-actively planning for their financial security. Therefore, it appears that some women are planning for their future financial needs.

Are women's efforts at saving going to be enough in light of their investment personality characteristics? The answer for many women is still "no". Women often feel inadequate about their financial knowledge and skills, lack comfort with math and financial decisions, are too conservative in their investment choices, do not feel in control of their lives and their money, have not prioritized the importance of financial planning, and do not recognize the urgency to control their financial future (Kilpatrick, 1997). Lack of financial literacy and money knowledge is seen by women as one of the biggest impediments to selecting appropriate investment products (NCWRR, 1994).

A recent survey of 1,287 respondents found that persons (male and female) who had higher savings for retirement and higher numbers of investments with the most earning potential had higher financial decision and math comfort, believed that their income was a primary contributor to the family income, believed that they had control over their present and future finances, and were self-confident and risk takers (Kilpatrick, 1997). Higher savers had made planning for retirement a priority, had identified specific dollar amounts needed, and used a pro-active, individualized approach for obtaining financial information. Those with higher level of savings had more high-risk savings vehicles. Male respondents fit the profile of the higher saver better than the females did. However, neither gender was saving at the rate needed for retirement, thus supporting other findings that

Americans may not be on target in saving enough for their retirement needs.

Pension accessibility

Women have had economic disadvantages in preparing for their future financial security. Men's jobs have paid more than women's and more often have had pension benefits. Women have been the predominant caregivers, causing their work lives to be interrupted. Inequities in retirement policies have discriminated against women (Richardson, 1993). Lack of pensions is one of the major contributors to higher poverty rates among elderly women (Select Committee on Aging, 1992). Divorced and separated women have the lowest rate of pension protection (Hayes & Parker, 1993). Thus, women's work opportunities and patterns have been enormously costly in terms of preparation for future financial needs.

The disparity between men's and women's benefit accumulations results in smaller pension income for women. Among new pensioners from private pension systems in 1993-94, men received median annual benefits of $9,600 and mean annual benefits of $14,565, while women received median annual benefits of $4,800 and mean annual benefits of $6,748 (U.S. Department of Labor, 1995).

As more women become employed full-time, they have increased access to their own retirement plans. The gender gap in pension coverage for full-time workers has narrowed to 3%. In 1993, 48% of full-time female workers and 51% of male workers had pension coverage (Hounsel, 1996). For women working part-time and sharing jobs, lack of pension programs remains a liability (Richardson, 1993). These women, as well as non-employed women, need to establish alternative types of savings for retirement.

A shift is occurring in retirement plans from traditional defined benefit (DB) plans to defined contribution (DC) plans, such as 401-k and 403-b plans. The employee must contribute to and manage these plans. The shift to DC plans disproportionately affects women because (a) they are more likely to work in small firms where DC plans are most prevalent, (b) median pay out (in 1994 dollars) received by women from DC plans is less than 1/2 that of men (U.S. Department of Labor, 1995), (c) the lower wage employee is more likely to be dependent on DC plans which require employee contribution (Hounsel, 1996), and (d) they are 40% more likely than men to receive pre-retirement distributions as they change jobs and leave the labor force more often (Select Committee on Aging, 1992). These statistics reinforce the need for women to be astute in managing and investing their DC plans and lump sum distributions to maximize earning potential.

Today's reality is that working women still differ from men as they continue to be primarily responsible for home and family. If women in this position are going to add the job of overseeing their financial future, they need financial help that is convenient, provides fast knowledge, and offers simplicity of investment advice.

Implications for Consumer Education Professionals

While there are subsets of Americans who do not conform to the circumstances discussed in this article, the majority of Americans, especially women, need to take control of their financial future. Consumer education professionals can assist in this educational endeavor as well as support legislation that fosters equality and opportunity to save for financial security in retirement.

Preventive programs for financial responsibility education need to be emphasized. Preventive programs need to be a part of primary and secondary school curriculum and taught to both genders. Educators and parents must insure that males and females develop confidence, math comfort, self-esteem, and other skills needed to enable them to be financially responsible for their lives. Learning investment strategies and participating in investment experiences at a young age can minimize the fear of investing, especially for women. Computer technology for financial management and experience in investing should be included in programs, too.

Intervention programs for adults, especially women, who can still impact their financial security in retirement need to be implemented through partnerships among educators, employers, and financial institutions. Financial education has been geared traditionally to the masculine profile. Intervention programs must be designed to address the specific life circumstances of both genders and their psychosocial and attitudinal composition (Hayes, 1993). These programs need to include the interaction of personal, economic, psychosocial factors, attitudes, and preferences for learning. Programs must emphasize the risk/return relationship among various investments and the importance of diversification.

As more employers utilize DC retirement plans, employee education is even more imperative. The workplace is a natural setting to provide this education, especially for women who may have few available hours after the normal workday.

Married men must be encouraged to incorporate spouses in retirement financial planning. Financial planning and investing

should be a shared responsibility because both spouses are affected. When women gain confidence in financial matters, they become more involved in the planning and management process.

Changes occurring in the funding of retirement will significantly impact the huge number of Americans retiring in the early 2000s. Both genders, especially women, must plan and save for their financial security in later years. Economic and psychosocial factors affect the preparation process. Consumer education professionals, financial institutions and advisors, and employers, as well as policy makers and researchers, can join forces to assist Americans in maximizing their ability to provide for financial security. If the urgency is realized by all, the picture of later years can brighten to reveal a more financially secure retirement.

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