Five key steps for women to improve their retirement readiness

Morningstar Investment Management South Africa
August 2021

Roné Swanepoel
Business Development Manager
Morningstar Investment Management
South Africa

For Financial Advisors and their Clients

According to research from UBS, a global financial services provider, 85% of women manage everyday expenses, but only 23% take the lead when it comes to long-term financial planning[1]. Even though women are more proactive with day-to-day household finances, it is critical that they also set themselves up for financial success in the future.

When we look at the 100 must-know statistics about women and retirement published as part of our global Special Report: Women and Investing by Morningstar in March 2021, the importance of the role of financial advice becomes even more clear. One statistic that highlights this is the finding that 90% of women will manage assets on their own at some point during their lifetimes. In addition, women must stretch smaller average balances over a longer time frame in retirement, as 65-year-old women outlive their male counterparts by two years, on average.

Globally, only 21% of women workers believe they are on course to achieve their retirement income needs. There's no easy fix for the problem, but women could consider the following steps to help prevent, and/or mitigate, a shortfall.

1. Start the habit of saving

Much of the gender gap in lifetime earnings, and in turn, retirement savings, owes to women reducing their paid work schedules or quitting work altogether to devote time to unpaid caregiving for children or elderly parents. Women are much more likely than men to cut back on paid work or quit altogether to shoulder caregiving responsibilities for children or other family members.

Habitual saving is one of the most important things women can do to self-fund a portion of their retirement income, and the data below suggests that, compared to men, only 50% of women are habitual savers.

Source: The Aegon Retirement Readiness Survey, "The New Social Contract: Achieving retirement equality for women". Data as at 2019.

[1] Source: UBS Global, 2019: https://www.ubs.com/global/en/media/display-page-ndp/en-20190306-financial-security.html

2. Start saving as early as possible

Research suggests that, not only do women only start saving much later in life, but that women's earnings tend to peak earlier than men's (no doubt in part because of caregiving responsibilities for many). On average, women's earnings peak at age 44, while men's earnings continue to climb until age 55. That means less income growth over a career lifetime for women.

This accentuates the merits for women of maximizing contributions in the early years of employment, when they can best benefit from compounding, and taking maximum advantage of retirement savings opportunities in those early-to-peak earnings years.

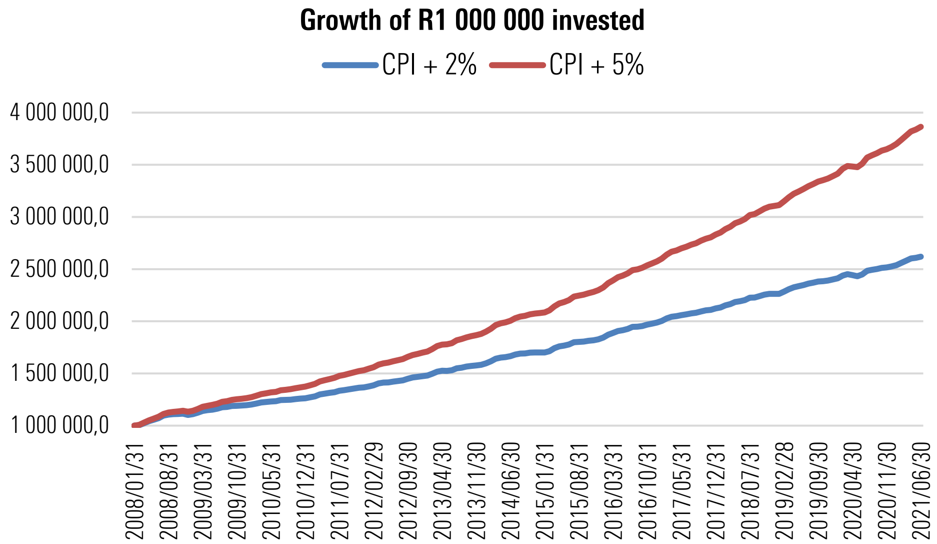
Have a fixed debit order with a set amount that comes off your account as soon as your money comes in. Pay yourself first but don't think of savings as an expense, because there is always a reason not to save. Think of your "spendable" income as the amount you have left after your savings amount has already been subtracted and it will feel less painful.

3. Take advantage of financial advice

Studies have pointed to women investing more conservatively than men, trading less, being more patient, and/or being more goal-oriented. Research shows that women tend to have a very low allocation to equity and a high allocation to liquid investments such as cash.

The right financial advisor can help a female client feel confident in getting started with investing as well as investing in the correct product and the correct allocation to risky assets (within a total portfolio) which will enable women to have greater financial successes.

It is very important to make sure you are in the correct product. If we look at the graph below, the difference between sitting in a more conservative solution (targeting CPI+2%) and having exposure to riskier assets (targeting a return of CPI+5% - a mere 3% difference in return - would mean more than 40% less retirement capital or an amount of R1 255 238 over a period of 13 years.



Source: Morningstar Direct, data as at 30 June 2021.

4. Put a plan in place for healthcare costs

Because of women's longer life expectancies, women have higher lifetime healthcare outlays than men and a greater need for paid long-term care. Women are often the caregivers for their spouses; when their spouses predecease them, they require paid long-term care at a greater rate.

That accentuates the virtue of maximizing retirement savings, of course, but women can take additional steps to ensure that high healthcare and long-term-care costs don't imperil the sustainability of their retirement plans.

5. Embrace lifelong learning

Financial literacy is a compelling example of where improvement is urgently needed, not only to improve women's management of their personal and household finances but also to empower them to choose and access appropriate financial services and products.

Aegon's Retirement Readiness Survey found that only 23% of women globally and in the U.S. could correctly answer all of the "Big Three" financial literacy questions pertaining to compounding interest, inflation and risk diversification.

There is no doubt that retirement is a heavy lift for most people. For women it's compounded by lower wages, caregiving responsibilities, breaks from the workforce and greater longevity. However, there are many positive attributes that women have when it comes to money and saving which, when applied consistently can help set you on the right path to financial independence. While you may not be able to solve all these societal issues on your own, there's a lot you can do to shore up your own retirement security.

**This article was originally produced by Morningstar Inc in the United States. Since its original publication, this piece may have been edited to reflect the regulatory requirements of regions outside of the country it was originally published in. We believe this article has interesting perspectives for S.A. advisers and their clients.* Click here to view the original article.

Risk Warnings

This commentary does not constitute investment, legal, tax or other advice and is supplied for information purposes only. Past performance is not a guide to future returns. The value of investments may go down as well as up and an investor may not get back the amount invested. Reference to any specific security is not a recommendation to buy or sell that security. The information, data, analyses, and opinions presented herein are provided as of the date written and are subject to change without notice. Every effort has been made to ensure the accuracy of the information provided, but Morningstar Investment Management South Africa (Pty) Ltd makes no warranty, express or implied regarding such information. The information presented herein will be deemed to be superseded by any subsequent versions of this commentary. Except as otherwise required by law, Morningstar Investment Management South Africa (Pty) Ltd shall not be responsible for any trading decisions, damages or losses resulting from, or related to, the information, data, analyses or opinions or their use.

This document may contain certain forward-looking statements. We use words such as "expects", "anticipates", "believes", "estimates", "forecasts", and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

Morningstar Investment Management South Africa Disclosure

The Morningstar Investment Management group comprises Morningstar Inc.'s registered entities worldwide, including South Africa. Morningstar Investment Management South Africa (Pty) Ltd is an authorised financial services provider (FSP 45679) regulated by the Financial Sector Conduct Authority and is the entity providing the advisory/discretionary management services.

+ t: (0)21 201 4645 + e: MIMSouthAfrica@morningstar.com + 5th Floor, 20 Vineyard Road, Claremont, 7708.