

# Divergent paths to retirement: How men and women plan differently

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Contact the BMO Wealth Institute at [wealth.planning@bmo.com](mailto:wealth.planning@bmo.com)

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## **Executive summary**

Numerous research studies show that gender strongly influences the path women and men take to plan their retirement. For women, there are also additional challenges in preparing for retirement as a result of their lower earnings, caregiving responsibilities and relative longevity.

Yet there is also evidence that once retired, women are more likely to enjoy their retirement and become happier as they grow older. So while it may seem that the odds are stacked against women in retirement, they also seem to have adapted the necessary skill set to help them cope.

In this report, the BMO Wealth Institute takes a closer look at gender differences in men's and women's approach to retirement planning and suggests ways in which they can learn from one another to improve the outcomes of their retirement by adopting each other's positive characteristics and successful behaviours.

## **Unique challenges that women face as they prepare for retirement**

Empirical evidence shows that men and women share the same dreams and goals in retirement: better health and more free time, with or without the family.<sup>1</sup> But often that is where the similarities come to an end.

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 a 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.<sup>2</sup> Men who find themselves alone in retirement, by contrast, are more likely to find another partner.

Not only are women more likely to navigate retirement alone, but they also tend to have accumulated a smaller retirement nest egg. This is because women continue to earn less than men during their working years. Currently, it is estimated that a woman earns just 83 cents for every dollar earned by a man,<sup>3</sup> which means, since retirement savings are directly related to earnings, that women are likely to save less for retirement than men. A study in 2006 calculated that a typical college-educated woman in

her mid-40s had already lost a total of \$440,743 in wages over her lifetime — an amount that could add up to a comfortable retirement nest egg.<sup>4</sup> Fortunately, the situation is improving, and women have been closing the gap quickly over the past ten years, which bodes well for the future. The circumstances for seniors have improved steadily over the years as well. Fewer than 10 per cent of women are now classified as being low income, although senior women are twice as likely to be so. For men 65 and older, only four per cent are low income.<sup>5</sup>

Women are also more likely to interrupt their employment to accommodate their role as the family caregiver. Compared with men, women have decreased hours, take more leaves of absence and are more likely to quit their jobs altogether.<sup>6</sup> In addition, women are more likely to have part-time jobs, which often have limited benefits, including pension benefits. Working part-time, spending fewer years in the workforce and earning relatively less all mean that women retirees will generally have smaller pensions and savings to rely on, especially single women. Single women tend to accumulate much less than women in couples — at least one-third less, according to a recent study.<sup>7</sup>

**Women are more likely than men to describe their retirements as “very successful.”**

### **Unique challenges women face planning for retirement**

- Women are living longer
- Women have more intermittent work histories
- Lower earnings equate to lower pension benefits
- Widowhood or divorce reduce women’s retirement income

If this weren’t bad enough, that smaller nest egg has to stretch further, because women tend to live longer than men. 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.

Women in particular are likely to be on their own in retirement: the statistics suggest that 40 per cent of women will divorce before their 30th wedding anniversary,<sup>8</sup> and the average age of widowhood for women in Canada is 56.<sup>9</sup>

With the death of a spouse, women often experience a steep drop in income, resulting from a cut in the spouse's employer pension benefits and government pension benefits.

Divorce can impose an equally harsh financial toll on a woman, and the divorce rate has been steadily rising. In the first year after a divorce, it has been estimated that a woman's standard of living drops an average of 45 per cent.<sup>10</sup>

And yet this apparent lower level of financial preparedness for retirement has not prevented women from enjoying their retirement. Women are more likely than men to describe their retirements as "very successful,"<sup>11</sup> and other studies have shown that women tend to become happier as they get older. To uncover the key to this seeming paradox, we need to examine the gender differences in men's and women's approach to retirement planning. Not surprisingly, men and women exhibit differences in their attitudes toward money.

### **Confidence, knowledge and planning**

Women, generally, are less confident in their knowledge about finances than men, regardless of whether this lack of confidence is justified, and this uncertainty extends to retirement planning.

Women are also generally less confident in their knowledge and understanding of financial products and services. Financial knowledge is directly related to one's involvement in planning for retirement: people who are knowledgeable about financial products and services are at least three times more likely to report that they are very involved in monitoring and managing their retirement savings than people who are not knowledgeable. Perhaps this is why more men (of all ages) than women have a financial plan (61% vs. 52%)<sup>12</sup>, and most experts agree that having a plan is the key to a comfortable retirement.

In most husband-and-wife households, the man continues to be the primary decision-maker, although men may perceive themselves as being more “in charge” than their spouses would concede. One of every two women say they share equally in financial decision-making for the household, while only two in five men take this view.<sup>13</sup> The partnership does, however, seem to reinforce positive traits. For example, married women are nearly twice as likely (64%) as single women (36%) to have a retirement plan.<sup>14</sup> And being in a relationship seems to have some bearing on the success of that plan, too, if only because two-income families have more disposable income.

So this is an area where women should take the cue from men, and become more financially literate and engaged in financial matters. Single women, especially, need to catch up with regards to having a retirement plan.

### **Risk tolerance**

When it comes to investing, as with many other things in life, studies indicate that men are more likely than women to take risks. When asked what they would do in order to meet their retirement needs, men are twice as likely as women to say they would make or have made riskier investments.

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.”<sup>15</sup> If they can be assured that their basic living expenses would be covered by lifetime income, retired men are nearly twice as likely as retired women to be willing to invest the balance of their portfolio aggressively.<sup>16</sup>

This is reflected in the investment vehicles they choose. Men are more likely than women to have investments, period — whether in an RRSP, RRIF, pension plan, TFSA or some non-registered vehicle<sup>17</sup> — and they are more likely to hold mutual funds and stocks in their investment portfolios, whereas women are more likely to hold GICs.<sup>18</sup>

For men, risk is often equated to market volatility. In retirement, men also tend to be more concerned about the impact of inflation on their portfolios. 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.

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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.

### **Fear, the greatest motivator**

For women, the best thing about money is the sense of security it provides, rather than the goods and services money can buy. Women report that financial security and freedom are 15 to 20 times more important to them than money-related status and respect.<sup>19</sup>

Fear is sometimes the greatest motivator, and women seem to have a healthy dose of fear about the future. They are more pessimistic than men about their prospects. The vast majority of women (90%) reported feeling financially insecure, even if more educated, or more involved in financial decision-making. Even women with more than \$100,000 in annual income are insecure; nearly half expressed fear of becoming a “bag lady” later in life.<sup>20</sup>

Women also worry more about their debt load, and they are significantly more worried than men about having enough money to survive.<sup>21</sup>

If the fear results in paralysis, then it serves no good purpose. If, however, it prompts action, it can be a positive force. If women’s fears about debt load prompt them to avoid or reduce debt leading up to retirement, that is a good thing. Financial professionals encourage their clients to enter retirement as debt-free as possible.

### **Willingness to seek advice**

While men are more likely than women to have a financial plan, they have a tendency to “go it alone” when formulating these plans.

Nearly half of the men surveyed said that when it came to retirement planning, “I can do this by myself,” compared to about a third of the women.<sup>22</sup> Men are simply less willing to seek the advice of others, whether asking for directions while driving a car or when they are looking for a road map to retirement.

Is there a price to be paid for this self-reliance? Three in ten men and almost two in five women admitted that they would need help with

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retirement planning.<sup>23</sup> Retirement planning is complex. There are many forks in the road, and taking a wrong turn along the way can quickly lead to a dead end. Advice from a professional financial advisor will steer you in the right direction. Women, it seems, are more likely than men to follow that guidance, and that helps them avoid costly mistakes and stretch their savings, even if their overall savings tend to be less than men's. The value of financial planning is clearly evident in a study that revealed that 57 per cent of clients who sought advice and received a comprehensive financial plan, are now more content with their financial well-being than they were five years ago compared with 33 per cent with no financial plan.<sup>24</sup>

### **Who is my advisor?**

When selecting a financial advisor, women look for honesty and listening skills, and for someone with good teaching skills. Women seek advice that is tailored to their unique situation. These features are more important to them than earning a competitive return or having low fees.<sup>25</sup> Men, by contrast, tend to seek out those with the best fees, those with the best tools and those with a broader range of products.

### **Financial expectations**

Finally, women appear to have lower expectations than men about how much they will need in retirement. Almost one in three men say they will need \$1 million or more for retirement, while only one in five women say they will need that much. Most women say they will need less than \$500,000.<sup>26</sup>

### **There's more to retirement than money**

There are notable differences, too, in the way men and women respond to the non-financial changes brought on by retirement.

Historically, men's identities have been very closely tied to their work, so when they stop working they find they haven't replaced work with something that gives them a sense of purpose. This is reflected in high rates of depression and anxiety among men. There is evidence to suggest that a woman's life experiences prepare her better for retirement, when "the job" no longer takes centre stage. Women's identities are still very closely tied to the relationships they have built nurturing their families. A lifetime of caregiving equips many women with a sense of purpose that will last into retirement.

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Couples who lead very busy and hectic lives raising children or pursuing their careers will spend a lot of time going in different directions. Perhaps one person is at home and the other is working, or both are working. Suddenly, when life slows down and they start spending a lot of time together, they can discover that they don't have as much in common as they used to. With more and more women working than previous cohorts, many more have the financial wherewithal to live independently. The social stigma of divorce is certainly not as strong now as it was in previous generations, and some people, realizing that their retirement could last 25 years or more, may decide they don't want to spend it with someone with whom they no longer have anything in common.

While men may spend more time planning their retirement finances, they would be wise to make plans about what they intend to do in retirement to fill their days. If men are counting on their spouses to keep them busy in retirement, they may be surprised to find that women have already figured out how they will pass the time — and it may or may not involve their partner. Women have developed strong social support networks with family, friends and their husband. If women are going to spend more time living alone, these connections will be vital.

Differing expectation	Men	Women
Money represents	status	sense of security
Sense of self-purpose from	work	relationships
Social support from	spouse	family, friends and spouse

### Men and women complementing each other

We have compared the behavioural differences exhibited by women and men that affect their efforts in planning for retirement. The lesson to be learnt is that both sexes can learn from each other, and improve the outcomes of their retirement by adopting each other's positive characteristics and mitigating those traits that obstruct them from planning for and enjoying a successful retirement.

Women could benefit from being more proactive in enhancing their level of financial literacy, and more engaged in the process of financial planning. They should start planning early to ensure a financially secure retirement. They should also be aware of and understand the dynamics that may put

them at a disadvantage at retirement: lower lifetime earnings, caregiving responsibilities, longer life expectancy and the potential need for health care and long-term care. With an elevated level of confidence in financial matters, they may be more willing to adopt a more aggressive stance in their investment approach that can improve the long-term sustainability of their retirement assets.

Men, on the other hand, could benefit from being more receptive to advice from experts and by being more sensitive to their financial limitations. They should listen to the fears expressed by women; if they did so, they would be more likely to live within their means and enter retirement debt-free. Men would do well to keep in mind that retirement is a life event as well as a financial event, and that preparing for the social aspect of retirement is equally important as preparing for its finances.

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