

Women's Retirement Literacy Report



THE AMERICAN COLLEGE
STATE FARM®
CENTER FOR WOMEN
IN FINANCIAL SERVICES

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INTRODUCTION

While there is no one-size fits all approach to understanding the financial needs of women, we know that women are increasingly taking ownership of their household's financial management. Research conducted by The American College for Financial Services in 2020 reveals that more than 9 in 10 women with partners or spouses equally share or lead financial and investment decision-making for their households.

This survey, which includes an analysis of over 800 women, also suggests that the majority of women ages 50 to 75 and with assets of at least \$100,000 work with a financial advisor and are more open to professional financial advice than men.

Women are more likely to express a variety of concerns about their retirement security, and more so than men, a third agree that thinking about their finances makes them feel anxious. However, most women do not feel anxious or stressed when it comes to managing their finances – half suggest that thinking about their finances does not cause anxiety and 6 in 10 say discussing their finances is not stressful.

In survey research, we generally find women to be more modest. They are more likely to say decision-making is shared with a spouse or partner, whereas men claim to be primary or sole decision-makers. Women tend to evaluate their financial and investment knowledge and literacy more humbly and more often admit they are unsure of answers. Still, the research conducted by The College suggests that women's retirement planning and income literacy trails that of men, based on a 38-question quiz testing knowledge on retirement planning, medical and longer-term care, life insurance, investing, and retirement income planning and strategies.

Unlike men who claim to have higher levels of knowledge and then test poorly, women's self-reported knowledge is more aligned to their actual literacy scores. Combined with their decision-making power and openness to advice, women represent a critical audience for financial advisors and financial services providers. Understanding how their approach to financial and retirement planning differs from men and by age, asset level, and racial or ethnic background is critical to building lasting relationships and developing products, services, and approaches that meet women's needs.

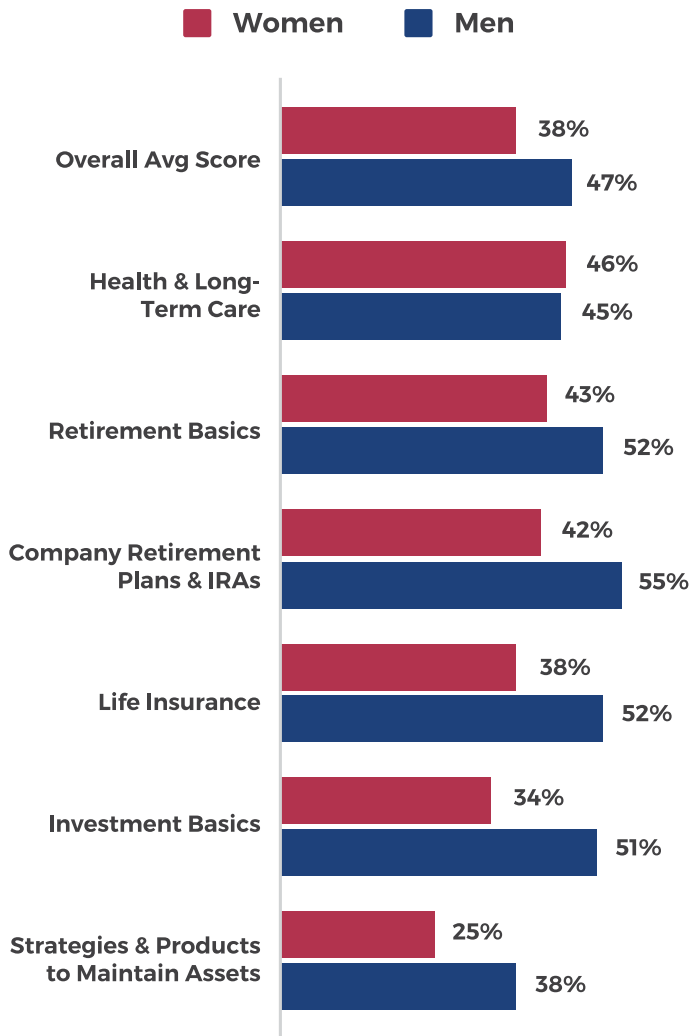
LITERACY OVERVIEW

Neither men nor women score particularly well on this retirement literacy quiz. Eighty-nine percent of women and 72% of men receive a failing grade, answering 60% or fewer of the literacy questions correctly. On average, women answer about 38% of literacy quiz questions correctly compared to men who correctly answer 47% of questions. Women under age

65, African American women, and those with assets between \$100,000 and \$500,000 have lower retirement literacy scores than women overall. However, African American women with assets of \$500,000 or more score especially well, answering 47% of questions correctly, which is on par with men.

Women score best in the health and long-term care section of quiz, correctly answering 46% of questions, on average. Scores are lower, and notably lower than men, when it comes to life insurance, investing and strategies for generating retirement income, including annuitization.

Average Retirement Literacy Score



RETIREMENT PLANNING

Women are less likely to have conducted a calculation or estimate of their retirement savings needs and demonstrate a lower understanding of retirement savings plans, including 401(k)s and IRAs, compared to men.

Nearly 2 in 3 women say that they have tried to figure out how much money they will need to save in retirement. It's a healthy majority

that holds across age and ethnic groups, but it is significantly lower than the three-quarters of men who say they've made this critical calculation. This sizable gap is notable and worrisome. One-third of women under age 65 say this estimate of how much to save is the most important part of retirement planning, much more so than women age 65 or older who feel instead that an estimate of monthly income in retirement is most important.

On average, women score a 42% on quiz questions related to retirement savings plans, while men achieve an average score of 55%. There are no differences in quiz scores on this topic by race or ethnicity. However, women with assets under \$500,000 and those younger than age 65 have lower scores and a lower understanding of retirement plans. Based on the responses, women are less likely than men to understand the tax treatment of these plans or why an investor might want to annuitize 401(k) assets. For example, women are less likely to know that saving an additional 3% in the five years leading up to retirement is not the best way to improve retirement security, compared to working longer or waiting to claim Social Security.

RISK TOLERANCE & INVESTING

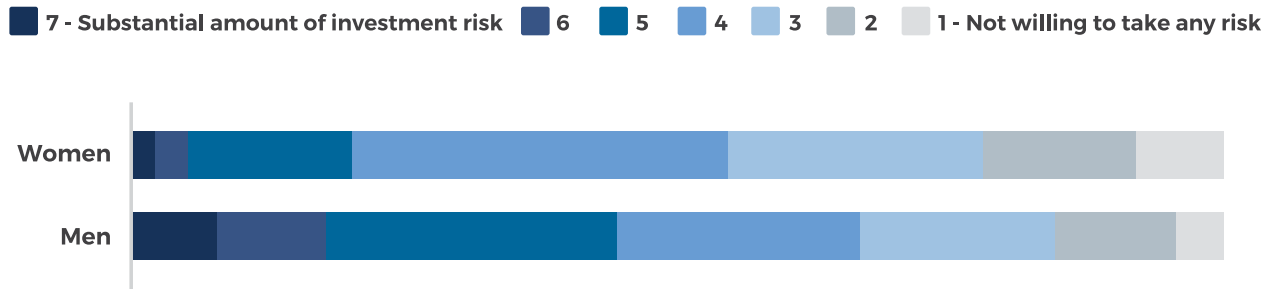
Nearly half of women rate their investment risk tolerance as conservative compared to only 3 in 10 men. There is no difference in risk tolerance by race or ethnicity, though women over age 65 and those with assets under \$500,000 tend to be more conservative.

About 6 in 10 women believe it's important not to overreact to down markets, and nearly as many agree they prioritize long-term goals over short-term ones when making financial decisions. Although many describe themselves as conservative investors, only 1 in 4 feel that the pain experienced losing money in the market outweighs the satisfaction of gains, and half believe taking the right amount of investment risk is highly important to achieving satisfactory performance on their investments.

Four in ten women are very concerned about investment volatility in retirement, and the COVID-19 crisis has heightened their concerns. Four in ten women (43.8%) feel less comfortable with investment risk because of the COVID-19 crisis. The same is true for only one-third of men.

Moreover, only 16% of women feel very knowledgeable about investment considerations for retirement planning, though self-reported knowledge seems to increase with age and assets. This is dramatically lower than the 31% of men who report being very knowledgeable about investing.

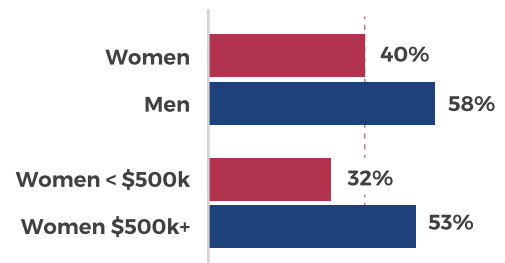
Self-Reported Investment Risk Tolerance



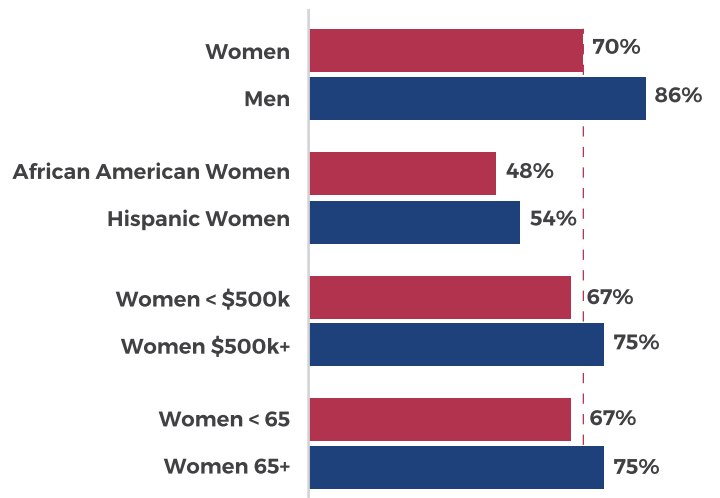
In one investment literacy quiz question, nearly half of women reply that they “don’t know” what percentage of their portfolio should be held in equities to maximize a safe withdrawal rate over a 30-year retirement. One in twenty falsely believe the percentage should 0% to 10%.

Two out of three women say it’s important to have a well-diversified portfolio, but they are less likely than men to identify it as the strategy that best protects against loss. Seven in ten correctly state that a single company stock is riskier than a mutual fund, but this lags the 4 in 5 men who answer this correctly.

Diversification Best Way To Protect Against Loss (% Correct)



True or False: Single Stock Safer Than Mutual Fund (% Correct - False)



The research suggests some Hispanic women may have misconceptions around diversification and particularly equity investment risk. Of note, Hispanic women are less likely than women overall to call diversification important and are less likely to know that a single stock is riskier than a fund. While reported risk tolerance levels are comparable across race and ethnicities, Hispanic women are especially likely to think their exposure to equities should be very (too) low in retirement.

LIFE INSURANCE

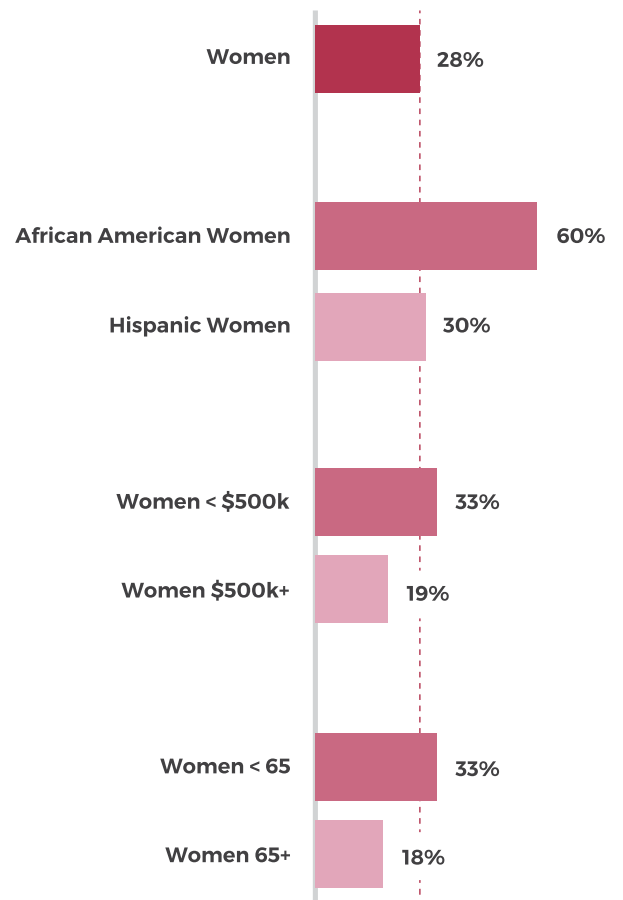
Just over 6 in 10 women own life insurance. Men are more likely to own a policy, with 7 in 10 reporting they have a policy. Life insurance ownership is higher among women under age 65 and women with less than \$500,000 in assets also own policies at a higher rate.

Roughly a quarter of women (and men) say life insurance is important for retirement planning. Women under age 65 are more likely to say it is important than older women. Life insurance is highly important to African American women, with 6 in 10 saying it is very important to retirement planning and more than a third who say it is extremely important. African American women are also more likely to report owning life insurance.

Though many own a life insurance policy, knowledge levels about using life insurance in retirement are low. Fewer than 1 in 10 women feel highly knowledgeable about life insurance in retirement compared to about 2 in 10 men. On average, women scored 38% on this section of the retirement literacy quiz, while men scored 52% on average.

African American women feel especially knowledgeable about using life insurance in retirement. More than 2 in 10 African American women say they are highly knowledgeable compared to fewer than 1 in 10 women overall.

Importance Of Life Insurance In Retirement Planning (% Highly Important)

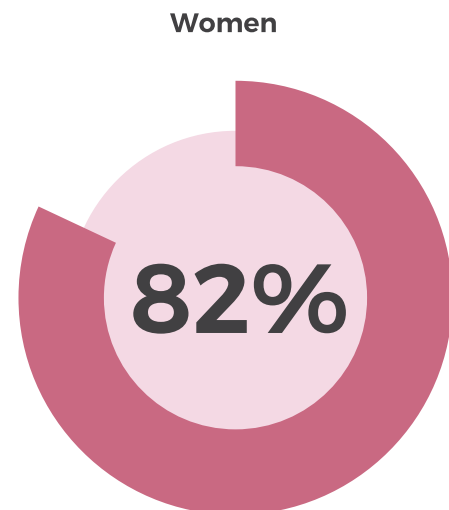


RETIREMENT INCOME PLANNING

More than 4 in 5 women claim to have a plan for where their income will come from in retirement. However, only 1 in 3 women report having a formal, comprehensive retirement plan. This gap exists among men as well and suggests income plans are either far less formal or not well understood.

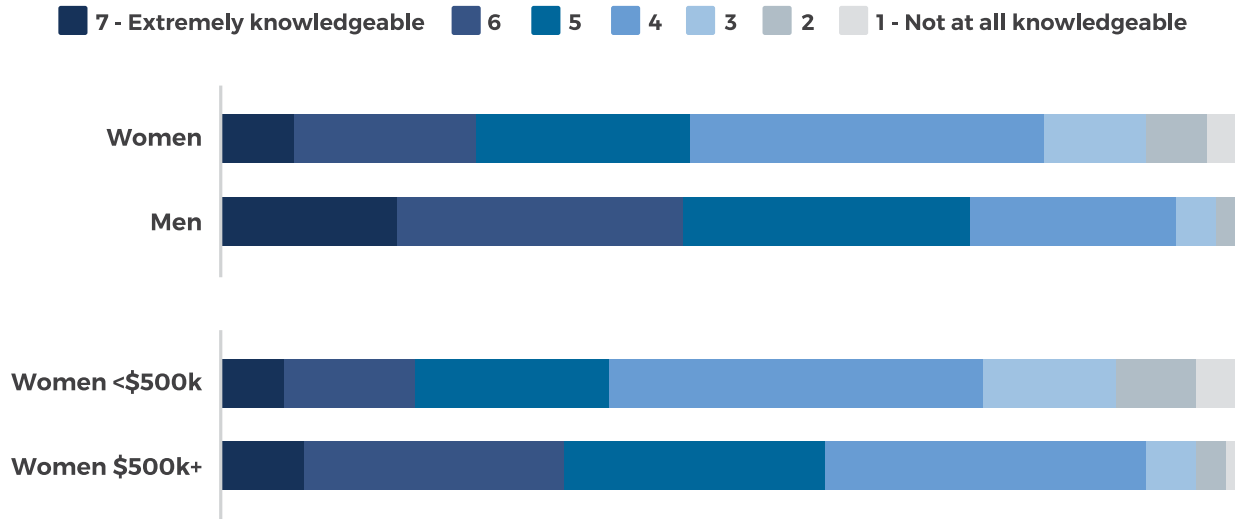
In fact, only 1 in 4 women feel very knowledgeable about planning for income in retirement compared to nearly half of men. Women with lower assets (between \$100,000 and \$500,000) in particular do not feel informed on this topic, as only 1 in 5 say they are very knowledgeable, notably lower than women with greater assets and men overall.

Have A Retirement Income Plan



The COVID-19 crisis, which has impacted many Americans economically, made some women less certain in their retirement income plans. 85% of men say their retirement income plans have not changed, compared to 3 in 4 women who say the same. Women with lower assets and those under age 65 are especially likely to have become uncertain about their plans for income in retirement.

Self-Reported Investment Risk Tolerance



GUARANTEED LIFETIME INCOME

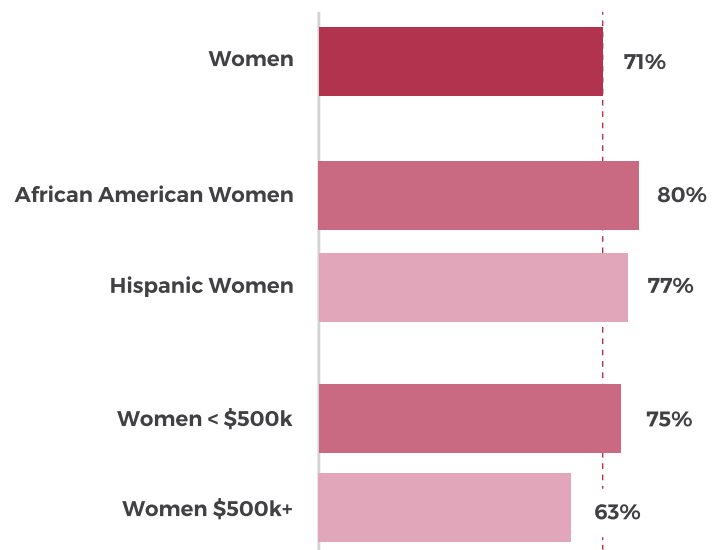
Women are more likely than men to be concerned about running out of money in retirement. They are also more concerned about the impact of inflation and about cuts to Social Security, both of which impact retirement income plans. More than 4 in 10 women agree they are concerned that the money they have saved or will save won't last, compared to only a third of men.

Eight in ten African American women emphasize the value of a guaranteed income source in retirement, with 9 in 10 African American women under age 65 agreeing it is important to have a guaranteed income source in retirement. This is higher than the 7 in 10 women overall who feel a guaranteed income source is important. Women with assets under \$500,000 are especially likely to believe this is important.

Despite its perceived importance, women admit to knowing little about guaranteed sources of income. Only 2 in 10 feel highly knowledgeable about Social Security, and only 1 in 10 feel knowledgeable about annuity products for retirement, lagging men's self-reported knowledge.

Neither men nor women demonstrate a high level of knowledge about strategies and products designed to maintain assets in quiz questions on the subject. On average, women answer 25% of these questions correctly compared to 38% correct for men. Strategy and product knowledge levels do not vary by age or race. However, women and men with higher asset levels are more likely to be informed on this topic.

Importance Of Guaranteed Income Source (% Highly Important)

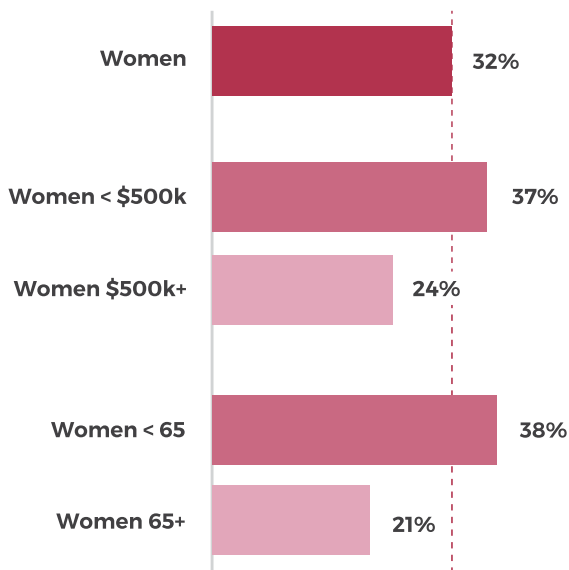


Use of guaranteed lifetime income sources is relatively equal across genders. Among African American women, 4 in 10 report owning an annuity with lifetime income. Overall, 3 in 10 women claim to own an annuity that guarantees lifetime income, and about a quarter report owning an annuity that does not have guaranteed lifetime benefits.

However, interest in these guaranteed lifetime income products is reasonably high among both men and women. One in three women are very interested in these products, and another third are moderately interested. On average, women with lower assets and those under age 65 are more interested.

For a majority, the COVID-19 crisis has not increased their interest in guaranteed lifetime income products. Yet, a sizable minority – 1 in 5 – say the crisis has increased their interest.

Interest In Guaranteed Lifetime Income Products (% Highly Interested)



HEALTH & LONG-TERM CARE

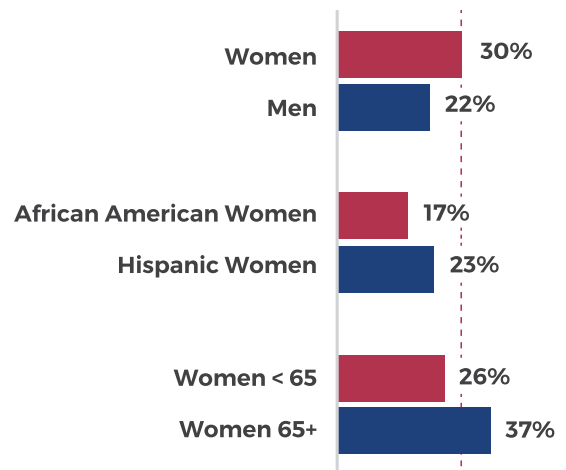
Half of women express a high level of concern about the cost of healthcare in retirement, and a third are worried about paying for long-term care expenses. Women feel less knowledgeable than men about some health and long-term

care topics, yet men and women score about the same on literacy quiz questions on this topic.

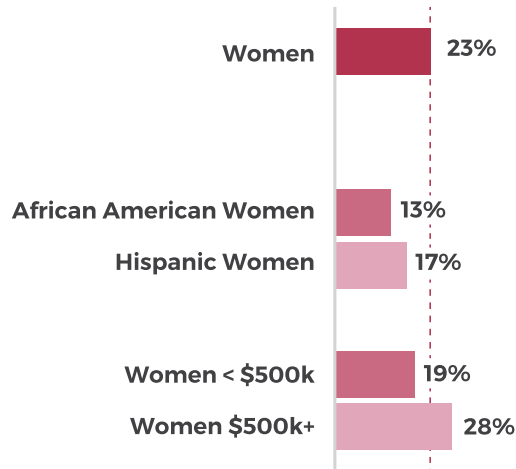
Women are less likely than men to feel knowledgeable about average life expectancy and Medicare, but they report the same low level of knowledge as men when it comes to paying for long-term care expenses. Just 12% of women and 16% of men feel highly knowledgeable about long-term care.

In literacy quiz questions on the subject, men and women demonstrate a similar level of knowledge on these topics. Women and men on average score about 46%. Misconceptions exist surrounding who provides and pays for care. Only 3 in 10 women correctly state that most long-term care expenses are paid for by Medicaid. However, even fewer men, only about 1 in 5, answer this question correctly. About a quarter of women correctly state that family members actually provide the most long-term care in this country; a similar proportion of men get this question correct. These two points appear particularly misunderstood by African American women, who are less likely than women overall to answer these questions correctly even though they self-report higher than average knowledge on Medicare and long-term care.

Who Pays For The Majority Of Care? (% Correct - Medicaid)



Who Provides For The Majority Of Care? (% Correct – Family members)



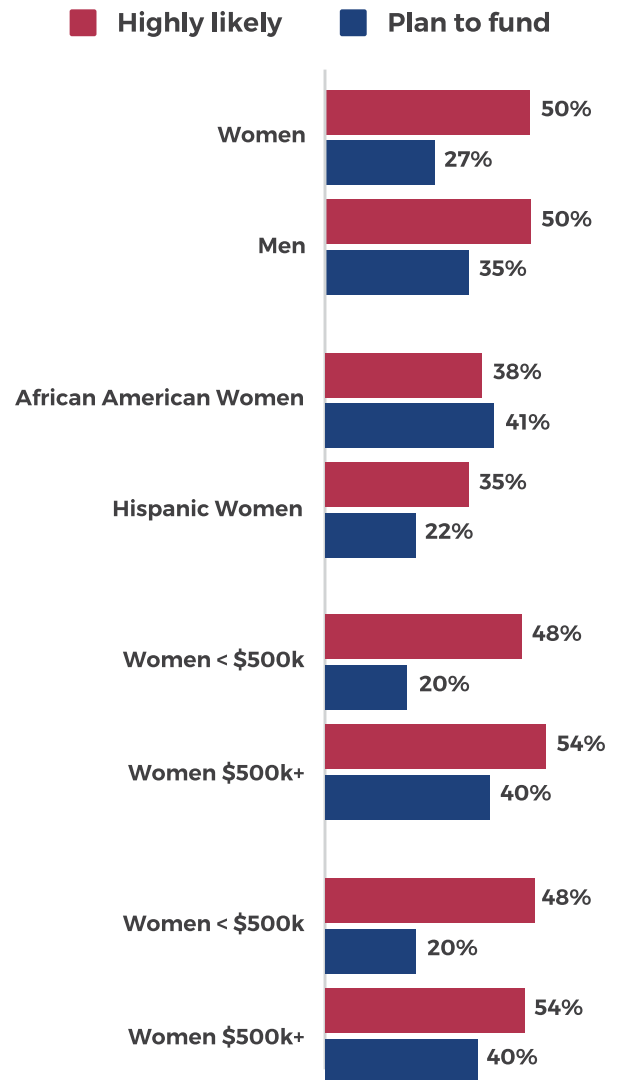
The low level of self-reported and tested knowledge in this area is troublesome, as half of both women and men expect to require long-term care in the future (very close to the actual statistics). Notably, African American and Hispanic women are less likely than women overall to believe they will develop a care need, even though national studies suggest African American women and Hispanic women are especially likely to be caregivers, and caregiving negatively impacts their health.

A sizable gap exists between believing care is likely and having a funding plan. Fewer than three in ten women have a plan to fund a long-term care need. Women with less than \$500,000 in assets and women under age 65 are less likely than their female counterparts to have a plan.

Long-term care insurance ownership is relatively uncommon, with 1 in 4 women claiming they

own any type of insurance that would cover long-term care needs. Comparable to men, 1 in 6 women report owning a stand-alone long-term care insurance policy, while 7% say they own a life policy with long-term care benefits.

Likelihood Of Needing Care Vs. Plan To Fund



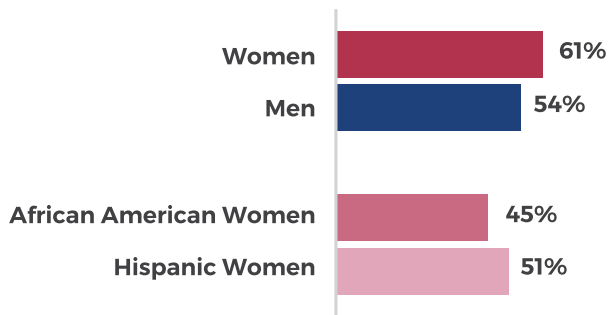
This research suggests there are some notable misperceptions among African American women. On this topic and among this audience, there is higher self-reported knowledge, but lower literacy scores. There's a reduced belief that long-term care would be needed, but higher claims of long-term care coverage, with more than a third of African American women (including 37% with lower assets) reporting they have LTC coverage. Women are more likely than men to become family caregivers, and African American women are more likely to become caregivers than women overall. Long-term care is a critical issue for this audience, and there is work to be done to explore these inconsistencies, in research and in individual consultations between financial advisors and the African American women they work with.

WOMEN & ADVISORS

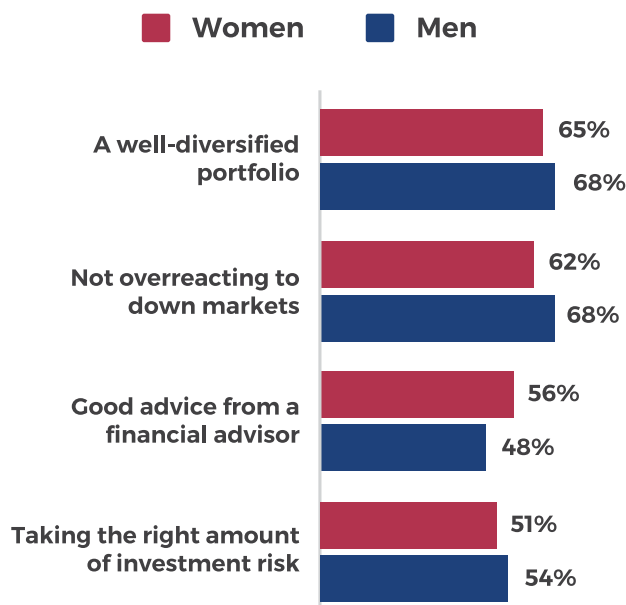
Nearly 6 in 10 women believe good advice from a financial professional is very important to satisfactory portfolio performance. Women are more likely to feel this way than men. Six in ten women use a financial advisor to inform their financial decisions, more so than men. Nearly 3 in 10 women use online resources to inform their decisions, and a quarter use news and media. Men are more likely to rely on online and media sources.

African American and Hispanic women are less likely to use a financial advisor as a source of information; about 4 in 10 each do so. Among all advised women, however, satisfaction with one's advisor is high, with 3 in 4 highly satisfied.

Ongoing Relationship With A Financial Advisor (% Yes)



Important To Portfolio Performance (% Highly Important)



Nearly 8 in 10 women believe their advisor is knowledgeable about retirement planning. More than half want their advisor to educate them on ways to protect against investment risk and to educate them on how much they can prudently spend each year to ensure they don't outlive their assets. The Center's 2012 research on women's financial needs found that very few women, across racial and ethnic backgrounds, feel it's important for their advisor to also be a woman or be of the same racial or ethnic background as them. Far more important, that study found that half of women want their advisor to specialize in serving the financial needs of women.

CONCLUSION

As stated, women are often in control of household financial decisions and they are generally receptive to receiving information and advice, making it crucial for advisors to address their concerns and educate them where there are knowledge gaps. Important education needs are revealed by The College's retirement literacy survey, including:

- Understanding retirement savings vehicles and calculating an accumulation goal [Retirement Planning, page 2]
- Addressing misunderstanding of diversification and the need for equity allocation into retirement [Risk Tolerance & Investing, pages 2-3]
- Discussing strategies for income, particularly guaranteed life income which so many seem attracted to [Guaranteed Lifetime Income, pages 5-6]
- Sharing the facts on the likelihood of needing long-term care, what it costs, and how it's paid for [Health & Long-Term Care, pages 6-7]

When developing relationships, advisors need to understand that women may come to the table with different educational needs and different approaches to retirement planning. Women tend to have a different financial outlook than men; they tend to think about finances holistically

and conservatively. This research would suggest lower literacy levels than men, but women also demonstrate an awareness of their knowledge level. Women will admit when they don't know and prioritize professional financial education and advice.

METHODOLOGY

This report presents findings from an online survey conducted by Greenwald & Associates on behalf of The New York Life Center for Retirement Income at The American College to assess retirement literacy among individuals who are approaching or already in retirement.

Information for this study was gathered through a 22-minute online survey conducted between April 29 to May 18, 2020. Respondents were recruited through the Dynata online panel. For the main study, a total of 1,509 Americans were interviewed (821 women, 688 men). To qualify for participation in the study, respondents had

to be ages 50 to 75 and have at least \$100,000 in household assets, not including their primary residence. Previous waves of this research were conducted in 2014 and 2017.

The final data set was weighted by age, education, and asset level to reflect the distribution of those characteristics among Americans age 50-75 with at least \$100,000 in investable assets (based on the 2016 Survey of Consumer Finance). The data was also weighted by gender using the 2019 Current Population Survey.

In addition to the main study, two oversamples were conducted: one of Hispanic consumers and the other with African Americans. Both had all of the same qualifying requirements of the main study and both were weighted by the age, education, and asset distribution of their respective groups. The Hispanic oversample included 208 respondents (95 women, 113 men) and the African American oversample included 214 (109 women, 105 men).

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