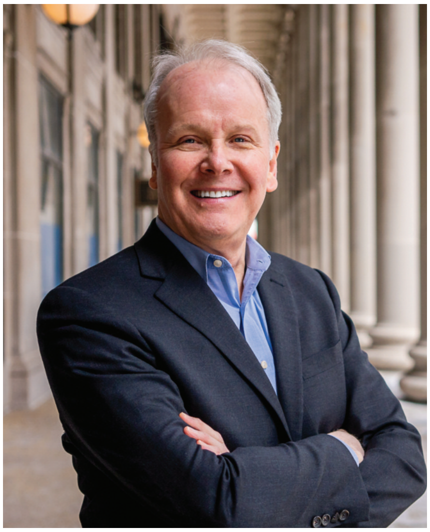

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Building Women's Wealth

To attract and retain women clients, CPAs and financial advisors must account for the unique differences between the way women and men save and invest.

Money. It makes our worlds turn. In the corporate world, financial decisions are typically made quite rationally using tools like discounted cash flow analysis and net present value. There is—or at least should be—less of an emotional component to strategic decision-making because the primary goal is clear: maximize profitability or shareholder wealth. In the personal finance world, however, separating emotion and rationality isn't quite as easy.

The creation and spending of personal wealth often carries with it the weight of our childhood memories and parental influences, lifestyle choices, educational level, family status, relationships, societal norms, and probably thousands of other influencers if we query further. As strategic advisors, we need to be aware of these dynamics and account for them when providing clients with recommendations to improve their financial positions—particularly when it comes to the growing segment of women investors.

Their increasing wealth, and therefore need for personal finance and tax advice, presents a unique and important business development opportunity. Countless studies highlight the differences in financial decision-making between men and women. And while there are certainly exceptions to most rules, we cannot ignore the individuality of each client when advising them. In fact, we become better advisors when we're aware and acknowledge the specific needs of each of our clients and tailor our recommendations to them. So, with that said, here are some generalizations worth observing if you want to better serve women clients.

WOMEN LIVE LONGER

In January, the Centers for Disease Control and the National Center for Health Statistics reported that U.S. life expectancy increased in 2018 for the first time in four years. The new statistics peg a woman's average life expectancy at 81.2 years and a man's at 76.2 years.

Anecdotally, I find these statistics unsurprising. I would guess most of us know more widowed women than widowed men both in our personal and professional lives. Heck, a visit to a retirement community dining hall would likely confirm this. After reviewing my own client base, I realized that 60 percent of my ongoing comprehensive client relationships are either women-only or women-driven.

The practical takeaway is that the advice we provide women clients should generally skew toward a longer life expectancy. In my practice, I typically plan for a woman's retirement through age 95 and a man's through age 90. A recommendation I make in light of this is to defer pension benefit elections to the latest commencement start date and Social Security to age 70, which should aid in providing a woman or surviving wife with the largest monthly benefit.

WOMEN ARE MORE RISK-AVERSE

Since at least 1996, multiple studies of men and women investors have concluded that women, on average, invest more conservatively than men. The findings make it simple to state that women are more risk-averse, but the reality is more nuanced than that. One study (Barber and Odean, 2001) attributed the result to men being more confident in their decision-making abilities. Another report (Badunenko, Barasinska, and Schafer, 2010) found that women are more conservative because they have fewer financial resources at their disposal. Yet another study (Blake, Cannon, and Wright, 2019) showed that people with less financial knowledge and education reported higher risk aversion than those with such education. This report also found that people with full-time jobs tend to be less risk-averse than retirees or those with part-time jobs. My point in citing these studies is to make it clear that it is too simplistic—and arguably outdated—to assume that a woman is a more conservative investor simply because of her gender. The advice provided to women clients must be based on insight that goes beyond simple investment risk tolerance models.

WOMEN ARE OFTEN CAREGIVERS

Whether it be a natural instinct, a family tradition, or a social norm, women often take on caregiver roles and make their primary responsibility to care for children and/or elderly family members. That of course can mean time out of the workforce, which equates to time not earning a salary, pension, 401(k) match, or other disposable savings and investment funds.

A 2019 Aon study concluded that about 70 percent of women face a 35 percent shortfall in needed retirement savings if they retire at age 67, due in part to women spending years out of the workforce while caring for others. We can educate our clients on these findings, query the possibilities of them fulfilling similar responsibilities and, when appropriate, encourage greater savings and investments or possibly delaying retirement to narrow a looming savings gap.

WOMEN ARE BETTER INVESTORS THAN MEN

The results speak for themselves. A 2017 survey of more than 8 million Fidelity clients found that women achieved higher portfolio investment returns than men. Fidelity suggested the following reasons for this:

- Women save more of their annual pay than men (about a 0.4 percent larger savings rate).
- Women earn higher annual returns than men (about 0.4 percent more each year).
- Women invest with a longer time horizon than men.
- Women focus less on short-term investment performance and more on achieving long-term goals.
- Women invest more in target-date and other age-based investment vehicles than men, thus improving portfolio diversification.
- Women are 35 percent less likely to trade in their investment accounts than men, which reduces trading costs (although this advantage may be lost as brokers increasingly adopt commission-free trading).

These results could easily lead us to believe that women generally are doing all the right things to provide for their future security. But we can't assume this is the case for all women—or even all men. As financial and tax advisors, we have an ongoing obligation to educate our clients about basic financial concepts and encourage them to make sound financial decisions. Further, we must consciously consider the mindsets our clients have about their wealth based on not only their gender but also their life experiences. In particular, we owe it to our women clients to ensure they understand the additional financial pitfalls they may face and assist them to successfully avoid them. Providing this thoughtful and executable advice is how we move toward being not only trusted but clients' most valued advisors.