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How Does a Woman's Longer Life Impact Her Investment Strategy?

It's no secret—women live longer than men. So in order to retire with the same level of comfort, women must save more to account for the extra years.

But many women face challenges accumulating the funds they need to cover a longer life span. On average, women still earn less than men. They also tend to take more time off from work to care for family. And on top of the factors that affect how much they save, many women choose to invest their savings more conservatively—a strategy that can lead to lower average returns over time, says Carrie Schwab-Pomerantz, a certified financial planner and president of Charles Schwab Foundation.

"Longer life spans, lower wages and more time off from work all speak to the fact that we need to be smart investors," Carrie says. These five steps could help.

1. Understand different risk factors. When you earn less and take more time off work, every dollar saved is precious. Not surprisingly, many women opt to try to protect those dollars by investing conservatively—holding more of their assets in fixed income investments, such as certificates of deposit and bonds that are less volatile than stocks. But even though it's easier to focus on protecting yourself from investment losses, "it's equally important to consider inflation risk and what can happen if you don't have the opportunity for growth," Carrie notes.

Historically, the rate of inflation has averaged about 3% per year, according to Ibbotson Associates. Right now, many fixed income options aren't giving investors a comparable yield, which means that your savings could end up with less purchasing power in the future. In short, the willingness to take on a little more investment risk for the sake of growth can help shield your savings from being eroded by inflation.

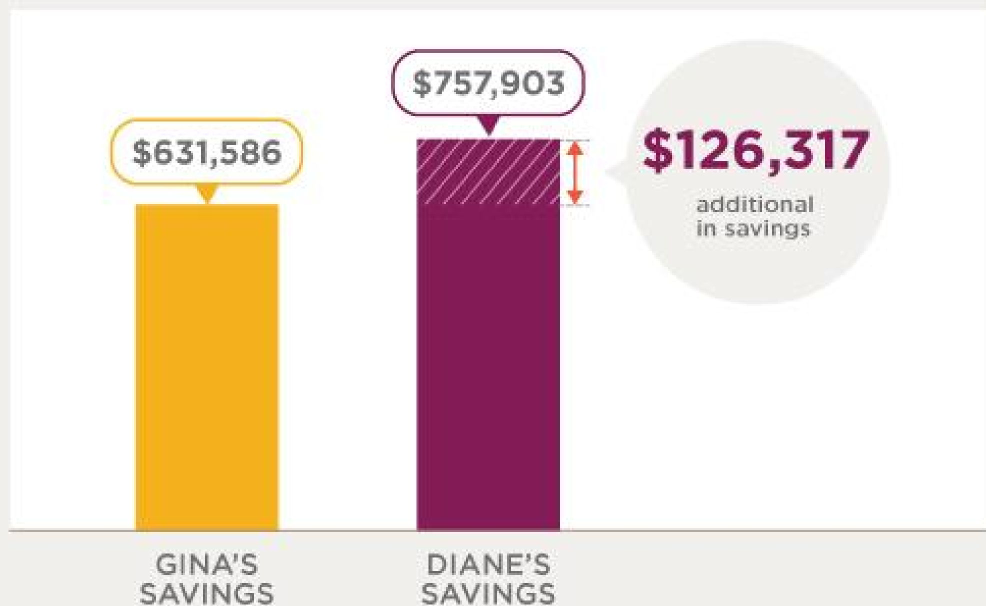
2. Remember that time tames volatility. There's no denying that stock market swings can be scary, and ignoring volatility is hard. But imagine someone took a Rip Van Winkle approach to the market—sleeping from January 2006 and waking in 2016. They would find the market (as measured by the S&P 500® Index) 58% higher than when they initially dozed off—and would be happily unaware of the plunge in 2008–2009. But tuning out market swings is always easier said than done—and even if you could, there's no guarantee you'd always tune back in to good news.

So when thinking about growth over the long term, remember that despite some unsettling pullbacks, stocks have earned a historical average of 10% per year since the 1920s—well more than the rate of inflation, according to Ibbotson Associates. And although stocks go through rough patches where they can lose 20% or more of their value in a two-month period—usually considered the threshold of a bear market—they typically recover to hit former highs within an average of three years, per Ibbotson. Only two bear

markets—the Great Depression and the 2000–2002 crash—kept stock prices below their previous highs for a decade or more, again, according to Ibbotson. The lesson here: Don't let short-term volatility color your long-term view.

3. Save even a little more. While a rule of thumb may be to save at least 10% of your income for retirement, Liz Davidson, founder and CEO of Financial Finesse, a California-based provider of wellness benefits, estimates that may not be enough for women. She usually tells her clients to increase their savings by 20% to 25%. It sounds daunting, but it simply means you'd need to save 12% or 12.5% of your income instead of 10%. Thanks to compounding, that small savings increase can add up over time. If you're late to saving—say, starting in your 40s—you may need to save as much as 30%, Carrie notes.

Consider two investors, Diane and Gina, who both earn $75,000 annually. Over the course of 30 years, Diane saves 12% of her income: $9,000 (or $750 per month); Gina saves 10%, which amounts to $7,500 per year ($625 per month). To keep this hypothetical example simple, assume no pay raises or increases in contributions over time.



As a baseline, Diane will sock away $45,000 more cash than Gina ($125 extra per month for 360 months). But assuming each invested in portfolios with a moderate allocation of stocks and bonds, and they both earn a 6% average inflation-adjusted return, Diane would have about $757,903 when she retires—some

$126,317 more than Gina, who would end up with about $631,586.

4. Find ways to manage risk. A well-diversified portfolio can help reduce both principal risk and inflation risk. Broadly speaking, investors should put some money in stocks, some in bonds and some in cash.

The small cash portion provides stability for money you'll need in the near term for, say, emergencies—or, if you're retired or about to retire, for a year or two of living expenses. Bonds provide both income and ballast for the segment of your portfolio that's invested in stocks. Stocks, meanwhile, can provide potential inflation-beating growth for money aimed at goals that are a decade or more away.

Not only can diversification help reduce volatility in your portfolio, it can also help preserve some growth. Indeed, according to Ibbotson Associates, between 1926 and today, a portfolio made up of 70% stocks and 30% bonds would have only an incrementally lower average return—about 9.8%—than a portfolio made up of 100% stocks.

5. Keep learning. The more you consider market history, the more you realize that volatile stretches are normal—and that they pass. That knowledge can help you stay calm during upheavals and better equipped to stay the course. "I firmly believe that all investors benefit from ongoing education," says Carrie. "Pick up

a book; read articles; take it in chunks. Investing is a long-term proposition, and it doesn't hurt to stay well informed."

What you can do next

Are you comfortable with your investment strategy? Do you want to reassess your portfolio allocation in light of your possible longevity and long-term goals?

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