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INSIDE BUSINESS

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Women Face Unusual Challenges When They Prepare for Retirement

Today's professional women have grown increasingly independent and have become significantly more aware of the investment marketplace than previous generations. However, to reach their financial goals, proper planning and investment management are more important than ever. High-quality services for investment management and financial planning are important to everyone. Yet there are several unique challenges that women alone face.

The past few years have produced some positive trends for professional women in terms of their ability to accumulate and successfully manage investment assets. For example, there are more than 10 million female-owned businesses in America that generate $2.5 trillion annually. Additionally, in 2003, the Bureau of Labor Statistics reported that women are the primary income earners in more than 30 percent of dual-income households. Finally, a study by the National Association of Investment Clubs found that women's investment clubs outperformed men's clubs by a wide margin in nine out of the past 12 years.

However, there are still some areas where professional women are swimming against the current. Although it may seem to be a positive that women outlive men by an average of six years, that longevity requires a 20 percent additional accumulation for retirement. To compound matters, women still earn only 77 percent of men's wages and are more apt to have gaps in employment to devote time to raising children or caring for aging parents. The net result is that many women contribute less to retirement plans and accrue Social Security benefits that are roughly half of what their male counterparts accrue.

Based on ongoing feedback from our female clientele, there are several areas that are important for women to emphasize in planning for long-term financial security:

Set goals and fund appropriately

It is important to establish appropriate short- and long-term goals as early as possible. By having an end result in mind, you and your adviser can determine the amount of funding required to reach each goal and the best investment vehicles to utilize.

As you begin to fund for these goals, it is also critical to plan for the ultimate distribution. For example, with regard to retirement, what ratio of qualified to nonqualified assets is appropriate? Will the vehicles that you use provide the flexibility for an early retirement (pre-age 59)?

Clearly define investment strategy

Construct an investment strategy - ideally a formal investment policy - based on your specific needs and objectives. Use this as the framework to make incremental asset-allocation changes based on movements in the investment markets. The recent market volatility caused by credit tightening, the subprime lending issues and recessionary fears readily illustrate the value of clear and disciplined management.

Know your costs

It is crucial that you understand the costs associated with engaging a financial adviser and the underlying investments that you own.

As you choose an adviser, have a frank conversation regarding how they are compensated. Few are truly fee-only and remunerated only by the fees that you pay them directly, some are paid solely by the commissions earned from the products they sell you, and some advisers use a combination of both methods.

Be certain to understand the costs of your actual investments. For example certain fees within a mutual fund are directly tied to the ongoing management of the fund and other fees are purely sales/marketing expenses of the fund. A recent analysis left one woman shocked to find that she was paying more in trailing sales commissions each year than the annual cost for active portfolio management. To that end, many women have elevated the need for expertise above rapport as they interview and hire investment advisers.

Regularly review progress versus benchmarks

Regularly review your progress. Make an annual comparison of your current situation versus the plan you developed. Additionally, thoroughly review your plan every three to five years in order to determine if your situation has changed enough to warrant revising the entire plan.

At the portfolio level, review the performance and volatility versus appropriate industry benchmarks. The key question is, "Are you being rewarded appropriately for the inherent risk that exists in your portfolio?"

As with any endeavor, inertia is your worst enemy. The best time to begin planning for your future is yesterday. Once you have engaged an investment adviser and started planning for your long-term financial security, be diligent about maintaining an active role in the process. It is important to be flexible as your goals and ongoing needs evolve over time.

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