Women & Money Paralysis

Not making a move may not be the best move to make.

Provided by Harry D. Toro

A decision not made may have financial consequences. There is an old belief that women are more cautious about money than men, and whether you believe that or not, both women and men may fall prey to a kind of money paralysis as they age – in which financial indecision is regarded as a form of "safety."

Retirement seems to heighten this tendency. If you are single, retired, and female, you may be extremely fearful of drawing down your retirement savings too soon; or investing in a way that would mean any kind of risk.

This is understandable: if you are over 80, you likely have memories of the Great Depression, and baby boomers have memories of the severe economic downturn of the late 2000s.

"Paralysis by analysis," or simple hesitation, may cost you in the long run. Your retirement may last much longer than you presume it will – perhaps 30 or 40 years – and maintaining your standard of living will undeniably take some growth investing. As much as you may want to stay out of stocks and funds, they offer you a chance to out-earn inflation – a chance you forfeit at your financial peril.

Even minor inflation can subtly reduce your purchasing power over time. Of all the risks to quality of life in retirement, this is often the least noticed. Doing nothing about it – or investing in a way that avoids all or nearly all risk – may put you at greater and greater financial disadvantage as your retirement proceeds.

Keeping a foot in the stock market – in whatever major or minor way you choose – allows your invested assets the potential to keep pace with or outpace inflation.

Retirement is the time to withdraw retirement assets. Some women (and men) are extremely reluctant to tap into their retirement nest eggs, even when the money has been set aside for years for a specific dream. Even though they have saved or dedicated, say, $20,000 for world travel, when retirement comes they may be skittish about actually using the money for that purpose. Buying a car to replace one that has been driven for 15 years, or remodeling part of the house to make it more livable after 70 or 80 may be viewed as extravagances.

We cannot control how long we will live, how much money we will need in the future, or how well the economy will perform next year or ten years on. There comes a point where you must live for today. Pinching pennies in retirement with the idea that the great bulk of your savings is for "someday" can weigh on your psyche. What does your retirement dream amount to if you don't start living it once you retire?

If you fear outliving your money, remember that growth investing offers you the potential to generate a larger retirement fund for yourself. If you seek more retirement income, ask a financial professional about ways to arrange it – there are multiple ways to plan for it, and some that involve little risk to principal.

Don't forget America's built-in retirement insurance: Social Security. For every year you wait to claim Social Security benefits after your full retirement age (either 66 and 67 for most people) and age 70, your monthly payments grow by 8%. In contrast, if you start taking Social Security before your full retirement age, it will mean less SSI per month than if you had waited.[1]

The 4% rule may provide you with a guideline. For many years, some retirement planners have recommended that a retiree withdraw between 4-4.5% annually from savings. (This percentage is gradually adjusted north for inflation over the years.)[2]

The 4% rule is a worthwhile rule for many retirees, but it is hardly the only yardstick for retirement income withdrawals. At its Squared Away blog, the influential Center for Retirement Research at Boston College notes a study from one of its economists on this topic. It suggests an alternative – termed the RMD strategy – that mimics the Required Minimum Distributions the federal government requires from a traditional IRA after the original IRA owner enters his or her seventies. In this withdrawal strategy, you start withdrawing only 3.1% of your retirement assets at age 65, which climbs to 4.4% at 75 and then 6.8% by 85. (That is just withdrawal off of principal; interest and dividends can be added to that to give you more income.)[2]

Are you wondering just how much money to live on in retirement? Are you also wondering how your retirement savings and income may grow? Talk with a financial professional about your options – you may have many more than you initially assume. A practical outlook on investing and decisions to work longer or claim Social Security later can also potentially help you amass or receive more money for the years ahead.

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Citations.

1 - forbes.com/sites/nextavenue/2013/08/22/5-cures-for-womens-retirement-spending-paralysis/ [8/22/13]
2 - squaredawayblog.bc.edu/squared-away/retiree-paralysis-can-i-spend-my-money/ [7/11/13]