PACIFIC LIFE insights

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FEMALE SAVERS: KEEP THEIR RETIREMENTS ON TRACK WITH BEHAVIORAL FINANCE

Behavioral finance tells us how our biases can influence investment behavior. Recognizing the kinds of biases held by your female clients may help you guide them toward more sound financial decisions.

Everyone has biases: it is part of being human. And cognitive biases can work as mental shortcuts that help us understand the world and quickly make decisions. The downside is that these biases can cause us to take actions that are not always accurate and useful.

Before we consider the kinds of biases your female clients may exhibit, it's important to know that women, in general, are better savers. Research has shown that women tend to save a higher percentage of their incomes. They also tend to evaluate their options before making decisions, which reduces the risk of knee-jerk reactions like selling their investments when markets experience short-term declines.

This is Where You Can Add Value and Help Your Female Clients Recognize and Mitigate the Effects of Their Biases

A first step is to help them identify and understand some of the common cognitive and emotional biases they may exhibit. This opens the door to finding strategies for successfully managing those biases and mitigating the effects. Here are a few common biases:

- **Anchoring**—Do you ever have clients take the first piece of information they learn about an investment and lock on it? They may be anchoring. They're relying heavily on the initial information, which means they may not adjust as the information changes. Asking questions that can help them consider new information may lead to better decisions. As an example, perhaps your client is reluctant to consider an annuity because she was told it can be expensive. Suggesting that can be true, while asking her to consider if she might find value in guaranteed income, may help open the conversation.
- **Loss Aversion**—Would you risk a 10% loss for a possible 20% gain? Many clients find the 10% loss is more painful than any positive feelings generated by a 20% gain. This well-known bias can make clients unwilling to invest for growth if there is a risk the portfolio will fall in value. Clients who understand this bias can consider possible ways to reduce their concerns. As an example, some clients might feel more confident using a variable annuity with a guaranteed optional accumulation benefit to help lessen their fears.
- **Mental Accounting**—Mental accounting is the tendency to treat one's money differently based on factors such as its intended use or its source. For example, your client may think of an IRA as money she intends to use for her retirement years, which may help her save for retirement and stay focused.

However, when retirement comes, she may now be reluctant to deplete her assets until required minimum distributions (RMDs) are required. You can see how this may—or may not—be a good strategy. It could be beneficial for her to spend some of the IRA earlier and have lower RMDs. Or, if she has longevity concerns, it may be wise for her to use the IRA to delay claiming Social Security.

What Questions Can Help Women Take Control of Their Biases?

The way a topic is presented can make a difference in whether or not a client makes a meaningful choice.[1] This is referred to as framing.

As an example, framing can be a useful technique when having the annuity conversation. Instead of asking a client if she would like to talk about how an annuity can fit into her plan, ask if she'd like to know about a financial product that can provide guaranteed lifetime income.

If you have a client who is reluctant to invest the way she needs to in order to grow her retirement income, try asking the question, "Would knowing you have protected income that will cover basic expenses make you more comfortable investing some of your money in growth for inflation protection?" This can lead her to use mental accounting to separate her basic expense account from her discretionary growth account and give her the confidence to invest.

Empowering Your Female Clients

Educating your female clients about behavioral finance can give them a tactical advantage: the ability to recognize when their biases could potentially limit their financial successes and make decisions that potentially lead to better results. So, reach out to your female clients to have the conversation about biases and empower them to reach their retirement goals. They will appreciate the information, and it will be easier to address once a bias does show up.

Additional Resources and Links

Annuitizing? Consider Using Your Spend-Down Account

Celebrate Women's Equality Day with a Better Retirement Plan

Building Success as a Female Financial Professional

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

[1]Thaler, Richard & Sustein, Cass. (2021). *Nudge: The Final Edition*. London: Penguin Books.

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