Testimony
of
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Before the Special Committee On Aging
May 23, 2002

Good morning Mr. Chairman. Thank you for inviting me to participate today. The topic of women and retirement has been a personal priority of mine for a long time.

My interest dates back to 1967 when I made the New York Stock Exchange co-ed. Women would stop by my office and ask me to help them with their finances. They had no knowledge on how to make financial decisions or choose an advisor to help them. Young women entering the work force from college and seeking a career on Wall Street would ask me how they could learn about personal finance and investments. These exchanges concerned me and so I conducted a survey of every senior, 4-year women's college to see why so many females appeared financially illiterate. I found that 90% of the schools surveyed didn't have one course on managing money even when home economics was counted as a course. The typical explanation for this was that money was not a proper subject for ladies.

Later on in 1982, when I was Superintendent of Banks for New York State, we regulated banks with trust departments. These banks had many female clients that relied on the trust departments to help them generate sufficient income from their savings to cover living expenses. We received complaints from women because unbeknownst to them there were times when their monthly checks also consisted of principal. This happened when investment returns had not produced sufficient earnings. However, these women had no idea that when they spent their monthly check that they were eating into their principal. Some didn't learn what was going on until half their principal was gone.

Unfortunately, here we are in 2002 and we're still finding that women don't know how to manage their money. For the women I met 25 and 35 years ago, it's too late to do anything meaningful. They are out of time to accumulate or build their nest egg and they are struggling every month to make ends meet. The demographics tell us that unless we do something the problem will only get worse particularly as the baby boom generation reaches their senior years. That's why hearings like this, in my opinion, are so important. I applaud the Committee for recognizing the problem and for considering it a national issue worthy of Congressional attention.

As I see it the problem has several causes. Increasing longevity is a factor. Women live longer than men. What's more, they are twice as likely as men to end up in nursing homes and find themselves with all the attendant costs that go with that kind of care. A third factor, they earn 75% of what men earn. And finally, family responsibilities oftentimes interrupt their work lives reducing their social security and private pension benefits.

The problem now impacts women at every stage of life. As I explained, we have a generation of women who have no experience or knowledge on how to manage their finances and no opportunities to acquire such knowledge. They will need assistance from social service agencies and the government to survive. We have another generation of women who are currently in the work force, building their own pensions and 401Ks. It's likely they'll work longer than previous generations acquiring valuable skills and remaining employable for more years. They still have time to develop a financial plan and implement it, if we educate them.

Today nearly 50% of all investable assets are held by women. Over the past two years, the number of women investors with principal of at least one hundred thousand dollars has increased from 36% to 47%. The country has made strides in creating opportunities for women to acquire financial assets. Now we must make it possible for them to get the education they need to manage their assets.

You have asked me here to offer investment strategies for women facing retirement. I believe it will take a concerted effort by the federal government, the Social Security system, the educational system, the financial services industry, and senior citizen advocacy groups to address the problem.

As I see it, a key component to the strategy is delivering financial education. Investment strategies are meaningless if the woman doesn't understand what asset allocation is. How can we help a woman manage her 401K if she doesn't know what a mutual fund is or how to choose one because she doesn't understand the different styles of fund management? How can a woman be expected to plan for retirement when she may not know how to manage her day-to-day finances? Regardless of what stage of life the woman is in, financial knowledge must be the foundation upon which she builds her retirement strategy.

For women currently in retirement, financial education must give them the information that enables them to maximize their return on whatever savings they've accumulated. For those older women who have no savings financial instruction must show them how to construct and implement a realistic budget, protect themselves from inappropriate investment ideas and help them re-evaluate their basic banking strategy.

For example education can enlighten women to the fact that they have the following options:

- With today's lower interest rates, they can refinance their home mortgage and thus reduce a major monthly expense
- If they hold credit card debt, they can switch to a card with a lower rate of interest and thus pay off their debt more quickly by simply maintaining the size of their monthly payment.
- If they have a 401K plan the chances are they have investment options ranging from conservative to aggressive. With knowledge a woman would be able to choose an appropriate mix of conservative and less conservative investments designed to meet their financial needs.

For women currently in their mid-years, the financial education must concentrate on preparing women for retirement. These women should be taught to be active participants in the management of their 401K and IRA accounts. They should be taught how to shop for a financial service provider and to discriminate between what's appropriate and inappropriate for them. Finally these women can be taught how to manage their credit and keep debt levels under control in order to maintain a healthy viable financial profile.

Consider the following. A 45 year old woman with $50,000 in savings is considering one of three alternatives for her nest egg: a money market fund earning 3% a year, an intermediate bond fund earning 5% a year and a long-term bond fund earning 8% a year. Her ability to make an informed decision is the difference between accumulating $91,038; $135,632 and $246,340, respectively, by age 65. With a little knowledge she can increase the size of her nest egg by almost 500%.

Now imagine the scenario if financial education is started earlier, like with our young adults in high school and college who have 40 years to save. We will have equipped this generation with the tools needed to build equity not only for retirement, but for their entire lives.

I have been on a personal mission to make financial education a mandatory part of our public education system for the past several years. This goal is so important to me that I joined forces with the New York City Board of Education and sponsored the development of a curriculum, the Personal Finance Program, for the City's high schools. The Program is designed to teach basic personal financial management concepts to high school students. Originally, I planned to develop a program that focused solely on managing a checking account and understanding credit card use. Taxation was added because New York City teachers reported that some working high school students complained money was being stolen from their weekly paychecks. They had no knowledge of withholding taxes or social security.

Ultimately, I would like to see this kind of program implemented with a multi-generational objective. I hope to create programs where parents, particularly mothers and grandmothers, are invited to join their children in the learning experience. The family can then be made a venue for an active learning experience in which both children and adults participate in making sound financial decisions.

For women in retirement and those in the planning stages, I recently launched the Women's Financial Network (WFN). WFN was designed to empower women to make more informed financial decisions. It provides high-integrity financial information, tools, and financial products needed to transact responsibly. WFN has something for women of all life stages. It includes special sections on dealing with the personal financial implications of divorce, retirement for women and widowhood.

With the tools that knowledge can provide, women will be in a position to utilize all of the potential solutions the Federal government can create. For example, I support all legislation that creates opportunities for women to have their own resources. The spousal IRA provisions that are now a part of the tax code are the kinds of steps we need to take to ensure that both partners in the marriage are provided for. We must do more.

When this country examines pay equity issues between men and women, it must also consider the implications of such discrepancies for social security. In 1999, according to the Social

Security Administration, women drew an average of $697 a month, or $8,364 a year. Men received an average of $904 per month, or $10,848 a year. That's a 23% differential. It's also the difference between living above the poverty line, which was $8,000 in 1999, or right at it.

Regarding Social Security, I support proposals that would enable people to invest a portion of their social security funds. However, I also want the record to note that with the pursuit of higher returns comes greater risk. Thus, I do not believe that individuals should be allowed to choose their own stocks. We cannot create a system where the people who can least afford to risk money will loose the most simply because they don't have the same knowledge. Individuals that opt to invest a portion of the social security account should be limited to a choice of index funds. An individual that sets aside $100 per month over a 40 year work life accumulates a nest egg of $1,176,477 by investing in a stock index fund that realizes the 12% historical return of the stock market for the past 30 years .

I would caution however, that any privatization proposal should include restrictions that maintain the integrity of our financial system. Under a privatized Social Security investment program, the government must never be allowed to vote the proxies or shares held by the Social Security system. At most, the government must be required to vote shares in line with the non Social Security stockholders.

The government must also support a national effort, possibly with a study on ways to provide the means for older women to gain financial knowledge. Some options might include:

- Providing incentives for the private sector to sponsor financial literacy programs for employees and retirees.
- Encouraging pro bono financial programs by financial planners and financial advisors through a certificate of merit or tax incentive initiatives.
- Working through the state colleges and universities, to bring seminars to local communities.
- Holding financial seminars at local Social Security offices. Announce these seminars in routine mailings and provide easy to register forms that encourage women to attend a seminar near their homes.

Thank you.