DRAKE, SAUNDERS & DIWINSKY Ltd.
A RETIREMENT PLANNING COMPANY

# Women and Money

## An interview with Jane Bourette of Drake Saunders & Diwinsky

**Do women face particular challenges when it comes to financial and retirement planning?**

**Bourette:** Women spend less time in the workforce, and when they do work, they traditionally earn less than men. The Institute for Women's Policy Research in 2008 reported that women who work full-time year-round earn a median income of $35,000 compared with men at $45,000.

This is particularly true for older women and baby boomers. All the women between ages 24 and 29 in 1982 who were working full time lost $440 million in the 20 subsequent years because of the gender gap.

Women also must confront the 'what if' factor: What if they divorce? What if they are widowed? Women are twice as likely to be single after age 65 than are men.

Even if you can soberly consider widowhood, don't think you can rely on your husband's pension – if he is so lucky to have one in this fast-changing economy. You probably will get only 50 percent of survivor benefits.

**What are the most prevalent characteristics when it comes to women and money?**

**Bourette:** Women worry more about risk when it comes to finances and wealth management – largely because of all the factors I just mentioned. They also tend to save less than men because they don't earn as much, and so many take time off to raise or care for family.

At the same time, women tend to research, plan and follow up much more than do men.

When it comes to money issues, women tend to be more flexible and conservative; men are more often than not set in their ways and greater risk takers. With that flexibility comes more balance for women. They tend to care better for their physical, mental and spiritual health; and they are not as focused solely on financial health.

Also, there is powerful research showing that women get stronger from adversity and are more willing to reach out to support networks for advice and help than are men.

**What are the warning signs a woman is in trouble with her financial and retirement planning?**

**Bourette:** When they hear themselves saying any of the four following things:

- 'I am too busy to plan.'
- 'My spouse takes care of our finances.'
- 'I'll save more once my children are through with college.'
- 'I don't know enough about investing.'
- 'I don't even look at my financial statements.'
- 'It's too late now. I have to wait until the market recovers.'

**You say that women worry more than men when it comes to money and retirement. What is that statement based on?**

**Bourette:** Two years ago, Hartford Financial Services Group conducted a major survey of women aged 45 to 74 on retirement concerns. It showed that women outworry men in every category listed except being bored in retirement. The top concerns fall into four broad areas:

- INFLATION. Women worry about their purchasing power in retirement. More than 8 out of every 10 women surveyed are very or somewhat concerned that the cost of living in retirement will outpace their incomes. That compares to less than 70 percent of men.
- HEALTH. Women worry more about declining health. And concerns about their health go hand-in-hand with worry about the rising cost of health care.
- LONGEVITY. Longer life means greater inflation risk. Some 64 percent of women are very or somewhat concerned about outliving retirement assets versus only 45 percent of men.
- OUTLIVING A SPOUSE. The harsh reality is that a new widow's income decreases by 50 percent on average, yet expenses only decrease 20 percent, according to the Hartford study. In addition to this cash flow challenge, women are often a caregiver to aging parents, spouses or other loved ones. Once a woman reaches age 65, she has a 49 percent chance of living to age 89, and a 23 percent chance of living to 95.

**Specifically, how many fewer years do women work?**

**Bourette:** According to the U.S. Census Bureau and Social Security Administration, men, through the year 2000, worked a median 44 years versus 32 years for women. On average, women are out of the work force at least 10 years due to life stages such as motherhood. Men, in contrast, take just one year off.

Consider this statistic as well: Only 44 percent of working women participate in pension or employer-sponsored retirement programs, compared with nearly 50 percent for working men.

That is borne out by another statistic: Women's average 401(k) or IRA balances are about $56,000, almost half the amount of men.

The eventual bottom line is this: Women's median income in retirement is only 58 percent of men's.

**Worry is not necessarily bad, if women are able to plan accordingly to deal with these anticipated problems. What do you suggest as steps to take, and how early in life should women begin the planning process for later years?**

**Bourette:** We love working with women to turn angst into action. The first step in my relationship with a client is turning non-productive worry into productive worry. There are three general strategies.

- BUILD A SAFETY NET.
  Social Security and pension benefits are tied to earnings, and since women earn less when they work and often take significant periods off from work, they begin in the hole, compared with men. It is especially important to investigate guaranteed retirement income sources such as annuities and to protect that income while working and in retirement through vehicles such as life insurance, disability insurance and long-term care insurance.
- PLAN FOR GROWTH.
  Women need to start investing early in a wide variety of retirement savings vehicles and a wide variety of asset classes. When you can do so through your employer, great. But the deep recession is seeing many businesses cut their 401(k) contributions. So it is more imperative than ever for individual women to save and invest on their own. Thus, it is essential to start saving very early in life – and not wait until you see retirement around the corner.
- TAKE CARE OF YOURSELF.
  Let's face it. Women tend to care for everyone else before they think of themselves. But that is counterproductive. If you are not healthy and financially independent, you cheat your loved ones. Women juggle so many work and family responsibilities that they rationalize their failure to focus on financial planning – or they choose to depend on their husbands. As important as finding the time and resources to manage your finances, you must manage your physical health as well. Consider how they are intertwined. If you suffer from chronic illnesses or face an acute health issue because you delayed seeing the doctor, it will have a major impact on your finances. If that happens later in life, it will be harder to recoup the expenses associated with that illness.

**Are women reluctant, afraid, maybe even lazy when it comes to financial planning?**

**Bourette:** Actually, the studies I read suggest otherwise. One recent study released by Allianz Life Insurance Company indicates that half of all women truly want to learn more about financial and retirement planning and investing.

The study identified five top-level topics women want to learn the most about:

- Planning for retirement so they can maintain their work-years' lifestyles.
- How to start saving and investing early in life with very little income.
- The basics of buying smart versus leasing or renting.
- How to buy the right insurance products, from life to long-term care.
- The ABCs of IRAs, annuities and mutual funds.

**What are some of the obstacles women identify that stand between them and these five goals?**

**Bourette:** Underscoring all of them is something very basic: Women feel overwhelmed by all the information in the marketplace and they are frustrated by the inability to find clear answers. The Allianz study, for example, found that when women are asked about financial planning concerns, they say:

- Information is overwhelming – there's too much of it.
- It all is very complicated and hard to understand.
- Information is almost always boring and dry.
- There is too much jargon and terminology to wade through.

Frankly, we find at Drake Saunders & Diwinsky that clients need us first and foremost as educators. Only when we succeed in teaching – and cutting through all that informational clutter – can we gain enough trust of people to expect them to become our clients. You have to spend a great deal of time with a prospective client as a teacher before developing a business relationship.

**Where should a woman start with an investment and retirement plan?**

**Bourette:** I like to begin with four steps:

- Identify and prioritize your goals.
- Start with a budget and develop a strategy.
- Focus on the fundamentals of investing.
- And talk with a financial professional.

***Let me break down each one:***

GOAL AND PRIORITY SETTING: Make them as specific and attainable as possible. For instance: Make a down payment on a house; pay your children's college tuition; open or expand your own business; purchase a second home; make sure you have money to pass on to your children and grandchildren.

THINK WHERE YOU ARE IN LIFE. What goals need to be accomplished soonest? How can you contribute to all of them, but not in ways that divert your attention and resources from the most immediate goals?

BUDGETING: Especially in these recessionary times, budgeting is critical. You must start by examining your spending habits.

Write down all your expenditures, even a pack of gum.

LITTLE INDULGENCES CAN REALLY ADD UP. Three lattes a week add up to $16,000 over 15 years; fifty dollars a week on happy-hour drinks come to $26,000 over the same period. Eating out for lunch every day during the week will cost you $52,000.

The more you can operate on cash flow, the better. You want to avoid high-interest debt, and that applies especially to credit cards.

Those are your short-term steps – so that you can actually have the resources to plan long-term. If your employer still matches your 401(k) contributions, you must find a way to take advantage of this. Think of it: You not only are growing your own money; you are getting money 'free' from your employer for being a disciplined saver.

But as I said earlier, even if your employer has temporarily frozen or even permanently discounted its 401(k) contribution, don't stop contributing yourself. And even if you need short-term money, do not withdraw from your 401(k) or IRA.

CONSIDER THIS: If you simply put $20 a week in a growth mutual fund earning on average 8 percent from age 40 to 65, you could build a nest egg of $83,000. If you start at 25, that nest egg will reach $285,000.

FOCUS ON INVESTING FUNDAMENTALS: The first fundamental is paying attention to inflation. If you invested $5,000 in a fixed-return investment of 5 percent five years ago, it will be worth only $2,781 in 20 years later (based on historic inflation rates since 1925).

So another fundamental is to grow your money to race ahead of inflation. But that entails greater risk – and if you don't invest properly, greater taxes.

It is not only about how much to save, but how you save it.

A key way to do this is to max out your IRA or 401(k) contributions because they are tax-deferred.

If you already have done that, then consider additionally putting after-tax money into an annuity, whose earnings can be tax-deferred as well. But annuities can be complicated and come with many hidden liabilities. We work very diligently with clients to be sure this avenue is as clearly marked as possible.

In addition to inflation and taxes, you must consider how to diversify your investments and allocate your risk.

SEEK PROFESSIONAL ADVICE. That may seem self-serving for a professional advisor, but it stands to reason that expertise is critical. There are key criteria I strongly recommend you apply to your choice:

- The advisor's experience and knowledge
- The time an advisor will give you – and not on an hourly basis
- The resources behind that advisory
- The advisor's discipline

Those are not necessarily readily measured qualities, of course. So how do you find the right person?

***Here are some tips:***

- Collect referrals from friends, family, neighbors and colleagues at work
- Request background information on them and their firm
- Schedule a meeting with each financial advisor
- Make sure they answer any questions you may have
- Equally, make sure they explain the potential risks and rewards associated with various investments and investment products

At the same time, when you visit a financial advisor, be prepared to ask yourself these fundamental questions:

- Where do you stand today financially?
- Where do you need to be in the future, and why?
- What is your general long-term game plan – that includes not only money, but family, lifestyle and health.