Time Is Money for Women and Their Retirement Planning

Women tend to live longer than men, although they may not earn as much and may stop working earlier. This article describes reasons women need to save and plan for retirement differently than men.

by | **Melinda Wilke**

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When it comes to financial planning, there's a general rule of thumb for what it takes to achieve financial security: Build savings, pay down debt, invest to grow wealth and protect income. These elements form the basis of a strong financial foundation.

While the financial planning fundamentals might be the same for everyone, the ways women and men approach them will—and should—differ, especially as it relates to saving for retirement. For women, certain life factors can dramatically alter their financial plans compared with their male counterparts. Life expectancy, retirement age, maternity leave, caregiving responsibilities and a variety of other considerations can influence how women prepare for their financial futures.

Life Expectancy

Arguably the greatest factor to consider when creating a retirement savings plan is determining how long those funds will be needed. Life expectancy for women is, on average, much longer than that of men. The U.S. Department of Labor estimates there is a 50% chance that a 65-year-old woman will live to the age of 90, compared with a 50% chance that a 65-year-old man will live to the age of 88. That means the average woman who retires at the age of 65 has to plan for her money to last at least 25 years! The two-year difference in life expectancy between men and women may not seem great, but those years will likely include additional medical or care expenses on top of living expenses, ultimately impacting how much women need to save and budget after retirement.

To help women create a sound budget before retirement, financial professionals often use a 20/60/20 rule: 20% of income for saving and investing, 60% for mandatory expenses (including housing, student loans, insurance, etc.) and 20% for discretionary expenses, such as donations to charity, vacations or entertainment.[1] Creating a plan with parameters such as these will allow women consistently to portion their money into the necessary areas of their lives, while staying on track with their retirement-planning goals.

Early Retirement

Women are more likely than men to leave the workforce at an earlier age in order to care for children or ailing parents.[2] In fact, 48% of current retirees left the labor force earlier than they had planned as a result of health issues, downsizing by an employer or the need to become a caregiver for a family member with medical needs. Each of these scenarios can result in less time spent contributing to a retirement fund, which is why it's so important for women to begin saving as early as possible in their careers.

Retirement planning often starts out top of mind but can drift lower on the list of priorities when there are competing demands like debts and expenses. This means lost time contributing toward retirement. For instance, many young people believe they can't afford to save money right out of college because of student loan repayment. The truth is they can't afford not to save. While expenses like student loans are a priority, allowing them to distract from retirement planning can be detrimental to an individual's financial security later in life. Saving money should be considered as important as eliminating debt, because unexpected expenses will only increase debt. Even if this saving starts with contributions at a small percentage, it will go further when placed in a retirement account early.

Maternity Leave

Another key difference for men and women in terms of saving comes with the decision to start a family. While a couple ultimately will save and budget for children together, women are at a disadvantage from a savings standpoint when it comes to maternity leave. Despite an increase of paternity leave polices at companies throughout the United States, ma-

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Elizabeth M. McFadden. MEI Publishing. 2016.
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ternity leave is still the most common approach for working parents.

Although some companies have announced shared parental leave programs that provide long-term pay for new parents, the majority of company maternity plans remain unpaid. And we all know that welcoming a new baby can be a huge expense. According to a 2014 USDA report, the average middle-income family will spend approximately $13,000 in a baby's first year of life. Unpaid maternity leave, increases in medical expenses and childcare expenses when returning to work make it essential for women to plan for any breaks in their careers.

Women should also keep in mind that when they aren't contributing to their company-sponsored retirement plans, employers will stop matching during that time, resulting in more dollars lost toward retirement.

Maternity leave policies can vary from company to company both in length and compensation, so women should make sure they understand their company's polices well in advance to ensure they're best prepared to adjust their saving-spending balance if and when the time comes.

The Wage Gap

Despite making up almost half the workforce, women continue to earn considerably less than men. In 2014, full-time female workers made 79¢ for every $1 earned by men.[3] This wage gap is another significant factor that can dramatically affect a woman's earning potential over her lifetime and can have negative implications on a 401(k) or company matching program over time. In essence, women are getting less company matched dollars than their male counterparts.

takeaways

- Among the factors women should consider as they prepare for retirement are life expectancy, retirement age, maternity leave and caregiving responsibilities.
- Women often are advised to plan on using 20% of income for saving and investing, 60% for mandatory expenses and 20% for discretionary expenses.
- Women are more likely than men to leave the workforce at an earlier age to care for children or ailing parents.
- The earnings gap between women and men can dramatically affect a woman's earning potential over her lifetime and have negative implications on a 401(k) or company matching program over time.
- Women need to actively plan for saving, spending, investing and protecting money and making financial contributions.

It's essential for women to take charge of their financial futures by planning and prioritizing their goals. Creating a monthly budget with savings goals; contributing to retirement; incorporating products to mitigate risks such as life, disability and long-term care insurance; and having a written, long-term financial plan are all ways to stay on track for retirement. In addition, women should work with a financial professional to understand how to include investing in their plan.

Planning for Financial Future

Meeting with a trusted financial advisor should be a first step for women to tackle these unique financial opportunities. These professionals work regularly with a variety of clients to establish budgets, spending schedules, emergency funds, priority expenses and the types of risk products that might make the best fit.

One way for a woman to begin taking charge of her financial future is by evaluating her current lifestyle against five financial basics: save, spend, grow, protect and give.

- **Save:** While this may seem like the most baseline principle, many forget that it's important to establish a consistent schedule of saving rather than choosing to save only when it comes to mind. Creating a plan helps a woman to establish goals that motivate continued saving.
- **Spend:** For many, spending might not be considered a key component of a structured financial plan. But managing expenses that already have been incurred—car payments, student loans, mortgage payments—allows for the streamlining of debt elimination to get on track for future saving.
- **Grow:** Investing to grow wealth is another important aspect of financial management. After working hard for money already earned, it's important to maximize that income. Even small investments earn interest, so a woman should start by making a strategy that balances top goals and priorities. She should start early and take full advantage of compounding interest over time.

- **Protect:** Protecting money already saved as well as future earnings is essential for staying on track for retirement. An unexpected injury or long-term illness can derail the best of plans if no protection is in place. Women not only tend to be long-term caregivers more often than men, but they also need extended long-term care as they grow older due to longevity. Disability income insurance and life insurance are two practical policies to discuss with a financial representative to prepare for these possibilities and plan for protecting both personal and family finances. There are also living benefits of whole life insurance, in addition to the death benefit, that are worth considering.
- **Give:** Most people want to be able to make a difference through financial contributions, whether in local communities or for larger causes. However, it can sometimes be hard to justify giving when dealing with personal financial stress. After organizing personal finances, it becomes easier to make giving back a priority.

Taking an active role in financial planning can lead to increased financial confidence and readiness for retirement and unexpected financial responsibilities. Using these financial basics guidelines in conjunction with an understanding of unique financial needs can help women safeguard for a comfortable, financially secure future.

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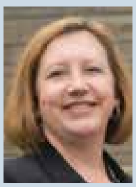

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Endnotes

1. Rebekah Barsch. "How to Rethink Your Budget in Retirement." April 19, 2016. Blog post available at www.northwesternmutual.com/financial-guidance/insights-and-ideas/articles/2016/04/how-to-rethink-your-budget-in-retirement.
2. Women and Retirement Savings, U.S. Department of Labor. September 2015.
3. www.whitehouse.gov.