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Financial Considerations for Women: Planning for Life's Major Events

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Life events such as marriage, divorce, remarriage, or widowhood all have specific financial considerations.

Over the course our lives, our financial needs change. Marriage, growing a family, divorce, retirement, and widowhood present women with new financial circumstances. Despite making great strides, women typically earn less than men and work fewer years as a result of leaving the workplace to raise children or care for elderly parents. As a result, women often have contributed less to retirement savings accounts and Social Security compared to men. Therefore, women need to be proactive in managing their finances and preparing for future life events.

Planning for Retirement

Regardless of age, women need to be thinking about and planning for retirement. Retirement savings should start early. For many young women, retirement seems many years away. However, retirement investments grow over time, so it is important to start planning and saving early. Often retirement savings are postponed to finance current lifestyle choices, such as general living expenses, travel, entertainment, and financing education either for themselves or other family members. This decision can be costly in the future.

Social Security is often a big factor in retirement planning. The majority of retirements are funded by personal savings, employer-sponsored retirement plans, and Social Security. Women often finance a greater portion of their retirement from Social Security than men because they have limited retirement assets elsewhere. Social Security eligibility is based on your lifetime earnings record and your age. This requires you to meet work requirements or be married to someone for at least 10 years who meets the work requirements. Employed women who are married, or widowed or divorced after at least 10 years of marriage are said to be dually entitled and can collect either their own Social Security benefits or their spousal amount, whichever is greater. The amount your Social Security payment is dependent on several factors, such as work history, age your start receiving benefits, and if you choose to continue working after you start receiving Social Security benefits.

Full retirement age varies by the year you were born. For example, full retirement age for people born before 1937 is 65. For those born between the years 1943 and 1954, full retirement age increases to 66. To determine your retirement age, visit the Social Security Administration's Web site (www.ssa.gov/retire2/retirechart.htm). The Social Security Administration has published a report, "What Every Woman Should Know," available at www.ssa.gov/pubs/10127.html or at your local Social Security Office.

Historically, you have most likely received a Social Security statement in the mail once per year. However, if you are under the age 60, you will no longer receive a paper statement in the mail. You can access your Social Security statement online at www.socialsecurity.gov. It is recommended to review your statement once per year.

Although Social Security represents one possible source of retirement income, it is important to build additional retirement assets. One of the first steps to building a retirement nest egg, is to establish a retirement savings account. Many employers offer employer sponsored retirement plans, such as a 401(k) or 403 (b). Typically employers offer matching funds for contributions made to these accounts. If your employer does not offer a sponsored retirement plan, setup your own retirement account by working with a financial advisor.

Getting started is the hardest part, but often women are not certain how much to contribute. It is generally wise, if your budget will allow, to contribute the maximum amount your employer will match. Additionally, you may want to consider other retirement investments based on your retirement goals, your estimated length of retirement, expenses you anticipate during retirement, and income you anticipate during retirement.

As with any investment, the performance of your retirement accounts should be reviewed on a regular basis. Both before and during retirement, it is important to preserve or maximize your retirement assets. Inflation, often known as the silent thief, is the general rise in the price of goods and cost of living. Overtime, it can reduce your buying power and erode your retirement savings. Considering a balanced portfolio—meaning a mix of investments between stocks, bonds, and mutual funds—can help you maximize your return on investment and protect against inflation. Finally, you should also consider your time horizon, or length of time before retirement. If retirement is many years away, you can invest your retirement savings more aggressively, hoping to achieve a greater return on your investment. However, it is important to realize that with the potential of greater reward or return is also greater risk. Therefore, as you move closer toward retirement, consider moving your assets to more conservative investments to protect your retirement savings.

Money and Relationships

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Marriage

Newlyweds can be especially vulnerable to unexpected financial stress. During the first year or two of marriage, which is referred to as the "honeymoon phase," couples are typically unrealistic about their financial situations. Often, they have not created a budget and are less likely to have a rainy-day fund or substantial emergency savings. They are also more likely to be tempted to "have it all" in the beginning of their marriage, hoping to duplicate a lifestyle, for example, that it took their parents years to achieve.

The best way to safeguard your marriage from financial stress is to plan for it. Discuss realistic money expectations and potential setbacks. By preparing for the unexpected (like job loss), and saving for the future (to increase your marital wealth), you are helping to establish a strong foundation for your marriage.

It is important for both spouses to be an active decision-maker in the couple's finances. Realistically, often one person manages the finances, banking accounts, and pays the bills; however, both spouses should openly communicate about decisions regarding finances. The lines of communications should be open early. Talk to your partner about finances before you get married. You should be aware of your potential spouse's assets and debts, including credit cards and student loans. Your partner's financial situation will affect your future ability to obtain credit to buy items such as a vehicle or home as a couple. As your marriage progresses, if you are not the person responsible for the day-to-day financial tasks, be certain to ask questions. It is often a good idea to set aside a monthly meeting time specifically to review your household's financial situation and discuss financial decisions.

Divorce

Being an involved spouse in the marital finances is important for many reasons. This is especially true in the case of divorce. During the marriage, women need to be aware of not only the marital assets, but also how the assets are titled. The name on the title of an asset can restrict access to the account. For example, if only your husband's name is on a savings account, you may have limited or no access to this cash. If you are facing a divorce, always consult an attorney prior to signing any paperwork. As you divide property, be certain to use fair market value to estimate assets not the amount originally paid for the asset. For example, if you purchased a house together, the value of the home may have significantly increased over several

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years; therefore, you should both share in the increase of value. Make certain that you are aware of all debts that may be associated with your name. Debts should be divided, and your name removed from your partner's portion of the debts. If your name remains on a loan, technically you are responsible for the payments. If your partner is late or skips a payment, this can negatively affect your credit history.

Widowhood

Widowhood can be a scary life event to experience. Proper financial planning can help relieve financial stress during this period of time and allow you to focus on yourself and your family. Often couples avoid planning for the death of a spouse because it is unpleasant to think about. To financially prepare for the possibility of losing a spouse, it is important to have a plan in place for replacing the spouse's income. If you have young children or a significant amount of debts, this is especially important. Carrying adequate life insurance to replace your spouse's income will allow you to continue to meet your financial obligations. To determine an adequate life insurance amount, there are other considerations beyond income replacement, such as funding future education and health insurance as well as paying for services your spouse was previously performing, such as yard work or vehicle maintenance. You may also be eligible for Social Security survivor benefits. Contact your local Social Security office for eligibility requirements. In addition to securing your finances, it is also a good idea to familiarize yourself with services or programs available through either your or your spouse's employer. Often employers offer a support program or continuation of benefits, such as health coverage, for a certain period of time.

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Remarriage

You may choose to remarry following either divorce or widowhood. As newlyweds later in life, you will have some of the same financial considerations of a young married couple, such as having open conversations regarding finances and developing a financial plan together. As a couple you can decide to keep certain assets separate, while combining others. It is also important to discuss retirement goals and assets. You may choose to review and revise your beneficiaries on life insurance policies and investments. Additionally, you may want to seek the advice of an estate planning attorney to ensure your assets would pass according to your wishes upon death.

Transitions between different stages of life can often be difficult; however, planning ahead financially can help you be better prepared to meet the financial obligations and allow you more time to focus on yourself and your family.

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