Closing the Gender Gap: Financial Life Planning for Women

By Joanna Nowak

You can feel the buzz in the air. Women are on the rise, financially speaking. We control $5 trillion in investable assets in the United States, and the potential for future growth is enormous. Today, women represent more than 51 percent of the workforce and are starting businesses at twice the rate of men. With more and more of us at the helm, we're saying goodbye to outdated ways of doing things and creating the kind of business and work culture that speaks to our needs and lifestyles.

At times these dynamic shifts can make it feel like the economy is becoming a place where women hold the cards, but we know there is more work to be done. Our challenge is to protect, grow and spread the wealth we've already created. How can this work on an individual level so that every woman can forge a successful, comfortable and even joyful financial future?

Why Financial Planning Is a Women's Issue

Despite all the advances women have made in the realm of personal finance, when it comes to saving for retirement, they still lag behind their male counterparts. On average, men's retirement account balances are more than 50 percent higher than women's. The gender retirement gap is further compounded by the fact that women tend to live an estimated five to six years longer than men. This means not only that their assets MUST last longer, but also that they may have additional expenses, such as long-term care.

While some women may reason that they'll be able to count on their husband's pension in retirement, realistically, many won't have this choice. After all, 40-50 percent of first-time marriages end in divorce (the divorce rate is even higher for second marriages) and today, for the first time ever, single individuals outnumber married people in the United States.

The data shows that, on their own, many older women have less money saved to draw from and higher expenses. All too often, this dangerous combination results in financial insecurity. Given these troubling facts, it's imperative that we ask not only why this gender retirement gap exists, but also what we can do about it.

• **The Gender Pay Gap:** Statistically, for every dollar men take home, women earn 79¢. That means women will make an estimated $530,000 less over their lifetimes, thus also reducing the amount of money they have to invest. We need to address this inequity as a society, but, in the meantime, there is something you can do about it on a personal level: Ask for a raise! This is one of the best personal investments you can make for yourself early in your career. It's also a simple way to begin fighting for a more secure financial future.

• **Family Responsibility:** Many women take more time off work than their male counterparts to raise children or care for elderly parents, sometimes without fully considering the long-term financial consequences. Remember, not working means more than just losing a paycheck. It also means having less disposable income to invest in the long term and may translate into lower Social Security benefits. Being aware of these issues can help women plan more successfully for retirement.

• **Divorce:** Seemingly fair divorce settlements often end up being inequitable because women traditionally bear a heavier burden when it comes to taking care of children post-divorce, potentially giving them less time to devote to a career or imposing a higher financial burden through the cost of caregivers. This is obviously part of a bigger issue that needs to be addressed. Being aware of this issue allows women to prepare more successfully for divorce and possibly negotiate stronger settlements.

• **Cost of Living:** Life as a woman costs more! For starters, think wardrobe, cosmetics and personal care. And while there may be little we can do to reduce some of these costs, there are still ways to combat this problem. After all, women often end up paying higher prices for things like mortgages and cars. By vigilantly researching the best loan rates available, women can negotiate from a stronger position and potentially reduce excessive costs over a lifetime.

• **The Gender Investment Gap:** Although women save more of their disposable income than men, they tend to invest less of it, leaving a lot of their money in cash or low-yield savings accounts. But when women put together personal plans to bridge the gender investment gap, it has dramatic, positive consequences for their financial lives. Let's begin by talking about why women often show hesitancy when investing. It's likely that they're buying into one or more of the many myths about women and money. Luckily, this is one thing we can aggressively fight.

Let's begin by debunking some long-held, negative stereotypes about women and finance.

• *Men are better investors than women.* Not so. Research shows that when women invest, they tend to be highly successful, outperforming men. Not to mention that funds managed by women consistently outperform their alternatives.
• *Women are too risk averse to invest successfully.* True, many women are risk averse. But wait. Can't caution in investing be a virtue that helps you better weigh your options and avoid making poor or rash decisions? Yes - so long as you keep in mind that some risk must be taken to realize the returns needed to grow your wealth. I've found this doesn't present a problem for women, or any investor, when the connection between their values, goals, financial plan and investments is clear and all are in alignment.
• *Women don't have enough financial education to make a financial plan.* Although this myth represents a gross generalization, there's no denying that everyone could benefit from getting a better financial education. Not having one, however, has never stopped men from investing.
• *Women are too emotional about money.* Good! The reality is that you need to be emotionally connected to delve deeply enough into your values and priorities to make a solid financial plan. Otherwise, you'll focus on the wrong things and end up working hard to achieve objectives that you don't even believe in. Prepare to get personal as we take the next step in planning for your future.

How to Begin Your Journey

Financial life planning is a method of personal finance that works from the inside out, beginning with questions that get at what's most important to you.

• If you had more time or money, what would you do?
• What do you want to accomplish or attain so you will feel you've had a well-lived life?
• What moves, touches or inspires you?

In my experience, women are particularly successful with this methodology because they naturally ask these kinds of questions. You'll still eventually get into the budgeting and numbers, but the "what" and "how" will help to more organically integrate money into your life. Plus, this approach creates an opportunity for introspection and growth, which is more personally satisfying.

Even saving and investing can fit into this paradigm when we begin to view them as a form of self-care.

• **Budget:** Try to think of budgeting as less about numbers and more about personal awareness. It's a check-in to see whether you are spending on the things that matter to you most. Use that as your guiding principle, and you'll end up setting boundaries that ultimately will set you free to create and pursue the life you desire.

• **Save:** Putting aside money is a way of caring for your future self. The rule of thumb is to save 15-20 percent of your income, but if you can't do that, save as much as you realistically think you can. Just as you go in for regular health check-ups, do frequent check-ins on your financial well-being. Ask yourself if there isn't more you can do to protect your financial welfare.

• **Invest:** The need to invest can be compared to our need for exercise. We exercise to fight the corrosive power of aging and maintain our health. We invest to fight the corrosive power of inflation and maintain our financial health. Your savings should be invested, rather than kept in a money market fund with low interest rates. Otherwise, inflation will erode the value of your assets.

• **Insure Yourself:** Most households invest in ensuring their family's well-being with health and life insurance, but many don't consider other risks that can leave their family vulnerable, like the cost of long-term disability and long-term care. But here's a little-known but important statistic: 80 percent of men die married while 80 percent of women die single. This is significant, because women are far less likely to have a partner to help care for them in old age. As a result, you may need to find a way to pay for the added cost of a caregiver.

• **Take Responsibility:** You would never cede big decisions in your life to other people, like who to vote for or how to take care of your kids or aging parents, so make sure that you are also participating in financial planning. Especially because one day you will most likely be the only one responsible. A study performed by the National Center for Women and Retirement Research estimates that 90 percent of all women - single, divorced or widowed — will be in charge of financial matters at some point in their lives.

You don't need me to tell you that procrastination can be detrimental to meeting any kind of life goal, but it can be especially damaging financially. To create the best future for yourself, start planning for and investing in your future today.