Financial Planning for Women

- While men and women share commonalities, there are differences as well.
- In the financial planning realm, many women face additional challenges, including a longer average life span and lower average lifetime earnings.
- COMPASS incorporates these factors in the retirement planning analyses that we create for female clients in order to provide more realistic projections.

Financial planning may present different challenges for women as opposed to men for various reasons. Knowing these challenges, when and if they are likely to occur is crucial for women to successfully manage income, expenses, retirement planning, college planning for children, and any other money matters that need attention.

Challenge 1: Women tend to live longer than men. According to 2009 data from the Centers for Disease Control, remaining life expectancy for a 65-year old woman is 20.3 years, as opposed to only 17.6 years for a 65-year-old man. This may mean that not only do women need to accumulate more assets for retirement, but also that they need to manage these assets much more carefully in retirement in order to make them last for a longer period of time. It is, therefore, paramount for women to begin contributing to a retirement account as soon as possible. According to the Department of Labor's "Women and Retirement Savings" publication, only 45% of the 62 million women (age 21 to 64) working in the United States participate in a retirement plan. This is probably one of the worst financial-planning mistakes you can make. If your workplace offers a 401(k) plan, you should start contributing as soon as you receive your first paycheck, and make sure you're contributing enough to take advantage of the employer match.

Challenge 2: Women are more likely than men to work part-time, which means they may not be eligible for benefits (such as retirement-plan participation). If a 401(k) isn't an option, consider an Individual Retirement Account (IRA) instead. A traditional IRA gives you the benefit of tax deferral, meaning that your assets will be able to grow tax-free until you begin withdrawing in retirement. A Roth IRA is not tax-deferred, but may offer other advantages. Conduct the necessary research and consult a financial advisor to determine which type of retirement account is the best option for you.

Challenge 3: Women, in general, earn less than men. Median income for men was $48,202 in 2011, compared with only $37,118 for women (Current Population Reports: Income, Poverty, and Health Insurance Coverage in the United States, September 2012, U.S. Census Bureau). This also puts women at a significant disadvantage financially, especially if they're single, widowed, or divorced and don't enjoy the security of a dual-income household. Precisely because they earn less, women have to be more disciplined about saving and investing. Make a realistic budget to assess your financial situation. Control your expenses as much as you can, and invest the rest. No matter how tiny it may seem, every little dollar you put aside today counts.

Challenge 4: Women tend to take more breaks from the workplace and have shorter job tenure, since they are most often the primary caregivers for children and also elderly relatives. This makes it difficult to get back into the workforce (and at the same pay level). The most important thing is safeguarding your retirement savings. No matter how tempted you might be, do not cash out your 401(k). If you do, you will not only pay taxes, but you'll also incur early-withdrawal penalties. Instead, consider rolling your 401(k) over into an IRA, and do the necessary research before you begin this process.

401(k) plans are long-term retirement savings vehicles. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Investing in securities always involves risk of loss, including the risk of losing the entire investment.