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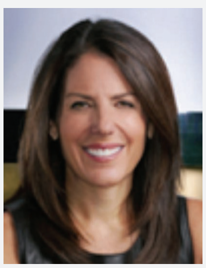
Five financial tips for women

Life-changing moments can put women behind the eight ball when it comes to financial planning.

Studies prove it: Women are exceptional savers and investors. Even so, there are life-changing moments that can put women behind the eight ball when it comes to financial planning—more so than men. That's why it's important for women to engage in their finances and tackle some of the things that can get in the way.

In a recent webcast, we turned to three savvy women for some key financial tips for women.



Jean Chatzky is the financial editor for a morning television show. She has made it her mission to help simplify money matters, and she publishes a magazine that reaches 2 million children each month.

Kathy Murphy is the president of Personal Investing at Fidelity. Murphy oversees a business with more than 16 million customer accounts and 13,000 employees.

Cheryl Wilson, SVP, and Midwest market manager at Fidelity, hosted the event. Wilson leads more than 400 financial services professionals, in 25 offices, across 7 Midwestern states.

Here are highlights from the webcast.

Cheryl Wilson: If women are great savers, why do we still see issues?

Jean Chatzky: I think it's a combination of factors. Women do 85% of all the spending in the country. It's not just clothes and shoes—we're buying homes, we're buying cars, we're also buying groceries. And when you're the one in charge of managing the budget, there are things that become urgent. There are things that become important. And it's important to have a method to keep those things in perspective.

The other thing is—this is just as true of men as it is of women—human beings are just not wired to save money. Our brains actually find spending very pleasurable. We get the same kind of kick out of spending money that we do from love and chocolate. It lights us up. And we have a problem focusing on things that are way off in the future when we have things that look really good staring us in the face.

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Wilson: Are women really different than men?

Chatzky: Absolutely. We're different because we have a different life span and life trajectory. Women take breaks from the workforce more often. More men are staying home with the kids these days, but we're still the ones who do it most often.

Despite fighting the wage wars, women on average earn only 79 cents for every dollar that a man earns.[1] So when we get to the end of our working career, the balances in our retirement accounts are substantially smaller than men's. And we live longer.[2] So we need that smaller amount of money to last us a longer period of time.

There are things that we can do to help ourselves out along the way. When we take a break from the workforce, we can make a contribution to a spousal IRA—if we still have a partner in the workforce. Or if we can kick some money into a SEP IRA, when we have a little freelance income, that can make a huge difference.

Five tips for women

- **Save more.**
- **Invest your savings.**
- **Prioritize short- & long-term goals.**
- **Prepare for the unexpected.**
- **Get on track to financial success.**

Just three years of making $5,000 contributions when you're out of the workforce, in your early thirties, even if you don't add any more money to that, can get you $100,000 more in retirement.[3] That's a huge difference. And for many people, it's not just three years.

Wilson: What's the difference between saving and investing?

Kathy Murphy: Saving is very important. You've got to save as much as you can, in order to live that retirement of your dreams, or to help your family through tough times, or what have you. You've got to put that money to work for you, in order to have it earn money throughout your lifetime.

We see a clear confidence gap with women. They save the money. They're actually better savers than men, on average. But they are not investing as much. When they do invest, though, they actually do as well as or better than men, because they have a long-term plan.

For example, let's say you save $100 a month and you put it in the bank. You're earning basically zero interest on that. So at the end of a year, you still have $100. Right? Inflation's gone up, so you actually have $98 or something like that. If you put it in the market and, say, you earn 5%, that $100 at the end of that year becomes $105. And then the $105 plus another 5% the next year, and so on. Over the course of 30 years, that becomes a much larger sum of money than the $100. You invest it in order to make it work for you.

Wilson: How can someone get started investing?

Murphy: That always brings up people's fear about "Am I going to lose all my money?" It's a very valid concern. And so you always have to be able to sleep well at night. So, even if you want to be more conservative than what the experts say you should be doing, at least get in the market so you're having that money work for you to some degree. You don't have to be the textbook example of exactly how to be invested, but do something—but be able to sleep at night.

Wilson: I sit in on appointments with our clients. I hear women say, I'm too old. I wasted too much time. I'm 30, I'm 40, I'm 50. How do I make up?

Chatzky: I essentially started over at age 40. I got divorced and started rebuilding my nest egg, rebuilding my retirement stash. And I made some very conscious choices. And this is what people who feel that they're getting a late start have to do. You have to prioritize saving. You have to put it above the other things that you want in your life. And so, for me, I took a very hard look at the house that I was going to buy and decided to buy a house that was substantially smaller than I could afford, so that I could then take the money and put it into my savings and then into my investments.

See footnote 4 at the end of the article for more details.

I also automated my savings and have a set amount each month put into a savings account. If you automate your savings and investing, you don't have to think about it every month. The money just goes into savings. And then, when you go to the ATM and you pull out the receipt or you look at the screen and you see the balance, that money is there for you, because you've already made the good decision to do what you have to do for your future. I think that is totally key.

Wilson: How do we know that we're on track? How do we know that we've saved enough?

Murphy: We've done an incredible amount of research on this. So by the time you're 67, sort of the new retirement age, you ought to aim to have 10 times your salary saved. Now you don't have to have ten times your salary at the age of 30. There's no way you could achieve that.

At each stage of your life, we have a guideline to see how much you should aim to have saved. When you're 35, you should have two times. And when you're 45, you should have four times. And if you're ahead of that, great. If you're behind that, as Jean said, maybe tighten up a little bit in terms of spending, so you can save more and make sure you're on track. You don't want to get to 60 or 65 or 70 and say, "I don't have control over my dreams. I didn't do what I was supposed to do. And therefore, I can't retire," or, "I can't do what I wanted to do, after I've worked so hard for so long."

And so these guidelines help you stay on track to live the life of your dreams and the life you deserve.

Wilson: Jean, how do you keep yourself motivated to save more?

Chatzky: I have a picture in my mind of what I'm saving for. I think it's very hard to save in a vacuum. But I think it's much easier when you're saving for something. And so, for me, I have this picture of a house in a place that I love.

I'm very specific about this house. I know how much it costs. I know about how much time exists between now and when I want to buy it. And having a visual, tangible goal has been proven to help us save more money, to help us keep our eye on the ball. And once you have this goal for yourself, if you can chunk it down into benchmarks, so that you know how much you have to save along the way in order to get there and how aggressively you have to invest, that's even better.

As we watch women get into their retirement plans, and start to reach their goals, and start to accumulate assets and realize that they're actually doing it, the confidence really starts to build. And so, for people who are not truly engaged, who are maybe putting money away but not taking a look at what it's doing for them, I think it's important for them to get in there and just visit their accounts—remind themselves of what they're actually doing for their future. It's a real confidence booster.

Wilson: How we should prepare for the unexpected?

Murphy: Life is never predictable. My dad died at the age of 57, leaving six kids. We didn't anticipate that. My mom didn't have a financial plan. And so, whether you're married or have a partner, it is really important for both people in that relationship to understand what the financial plan is and to be educated about that. It's also important to save for the unexpected on the downside. My mom has Alzheimer's. I'm taking care of making sure she gets good care. I think it's important to save money, in order to address those life moments on the downside.

Chatzky: Ninety percent of women are alone at some point in their lives. The unexpected shouldn't be so unexpected. Life just happens. Emergencies happen. And this is why the plan is important. But it's why revisiting the plan, and having somebody that you trust enough to talk through these decisions with—whether it's your partner or a professional adviser—it's crucial. You've got to be able to switch it up on the fly.

Wilson: Do you need a pile of "expected" money and a pile of "unexpected" money?

Murphy: We say about 50% of your income is for essential expenses—the cost of living your life, the cost for your family; 15% for retirement savings, on average; and 5% for short-term savings. This is for the short-term, unexpected event. Something happens. You lose your job. And then the remainder is 30%. That other depends on where you are in your life and also how much you've saved. The other could be additional savings. But the 30% is personalized to you in terms of your circumstances. But you should aim to get the 50, 15, and 5 pretty much right, to be able to stay on track.

Chatzky: You hear people talk about the fact that you need three to six months' worth of expenses put away. And there's no question that that's important. You got to just keep putting the money away for retirement, as you're building your emergency cushion on the side. We're saying multitask, essentially, where your finances are concerned.

Wilson: Any final thoughts?

Murphy: I can't tell you how many men, whether they're Fidelity employees or our customers, have said, you know, "This is important to me, because I'm married and I have a spouse," or "because I want my daughter not to get in the same trap that previous generations have." So whether you're a man or a woman, this is an important topic.

Women are going to live, on average, to be about 92 years old. And women work really, really hard. And we want to make sure that that money is working hard for us, that we take control of our finances, so we can live the life that we've dreamed of. And it's absolutely within our control. It just requires some effort, number one. And it requires all of us to have a little more confidence.

So, again, when it comes to the barriers for women versus men, the only difference is confidence and the way we approach getting ourselves educated about finances. Take the time, just a little bit of time, to get yourself knowledgeable so you can break through that confidence gap. If you don't break through that confidence gap, you may be leaving so much money on the table, money that you deserve.

Learn more

- See where you stand on our 50/15/5 rule—use our Savings and spending checkup.
- Read *Viewpoints:* How to save for an emergency.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

Past performance is no guarantee of future results.

Views expressed are as of the date indicated and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the speaker or author, as applicable, and not necessarily those of Fidelity Investments.

Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

[1]Women earn 79 cents for every man's dollar. U.S. Department of Commerce, Economics and Statistics Administration. U.S. CENSUS BUREAU Income and Poverty in the United States: 2014. Current Population Reports. Issued September 2015. Carmen DeNavas-Walt and Bernadette D. Proctor.

[2]Women live 4.8 years longer than men. Centers for Disease Control. National Center for Health Statistics. Health, United States, 2014: With Special Feature on Adults Aged 55–64.

[3]Hypothetical example assumes contributions of $5,000/year ($416.66/month annualized) made over three years with an annual return rate of 6%, for a total of $16,390.98. With no additional contributions made for thirty years, growing at the 6% stated annual return, thereafter the balance could total $98,715.

[4]Fidelity has developed a series of income multiplier targets corresponding to different ages, assuming a retirement age of 67, a 15% savings rate, a 1.5% constant real wage growth, a planning age through 93, and an income replacement target of 45% of preretirement income (assumes no pension income). The final income multiplier is calculated to be 10x your preretirement income and assumes a retirement age of 67. The income replacement target is based on Consumer Expenditure Survey 2011 (BLS), Statistics of Income 2011 Tax Stat, IRS 2014 tax brackets and Social Security Benefit Calculators. The 45% income replacement target (excluding Social Security and assuming no pension income) from retirement savings was found to be fairly consistent across a salary range of $50,000-$300,000, therefore this factor may have limited applicability if your income is outside that range. See footnote 4 for investment growth assumptions.

These simulations take into account the volatility that a typical target date asset allocation might experience under different market conditions. Volatility of the stocks, bonds, and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign) are represented by Ibbotson Associates SBBI S&P 500 Total Return Index, bonds are represented by Ibbotson Associates SBBI U.S. Intermediate Term Government Bonds Total Return Index, and short term are represented by Ibbotson Associates SBBI 30-day U.S. Treasury Bills Total Return Index. It is not possible to invest directly in an index. All indexes include reinvestment of dividends and interest income.

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