The Basics

# Women: Take charge of your nest egg

Women live longer than men, earn less and typically spend fewer years in the work force -- all reasons we need savvy retirement planning. Get the critical facts and start now.

By Janine Latus Musick

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Every day, especially since the bear market, the collapse of Enron and the mutual-fund scandals, you hear workers worrying about retirement and pensions.

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The questions are, frankly, more critical for women. In fact, married or single, children or none, women need to take charge of their retirement planning. The reasons:

- Women take time away from employment to have children, raise families and increasingly, to care for elderly parents.
- In part because of the time spent out of the paid work force, they earn less than men.
- Women live longer than men -- by an average of seven years.

To ensure financial security, many women need to learn to save and invest more than they do now, and they need to get focused now.

Perhaps the weightiest factor in retirement planning for women is the decision to drop out of the paid work force to work at home raising a family. Most women do -- for a while, at least. So, if you're young and think you won't take time off, guess again. Some 80% of American women do have children.

And while there are great reasons to leave the paid work force to take care of your children, from a purely financial standpoint, it's a costly choice.



"During those years no money is going into Social Security, no money is going into pension plans, no money is going into 401(k) plans, and their career track gets slowed down so when they do go back, their income level is lower than if they had kept working," says David Bach, a former Morgan Stanley financial adviser and author of "Smart Women Finish Rich."

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## Lost wages are massive

It's impossible to say exactly how much is lost by the worker who takes time off to care for family members; Bach describes it as "massive." As an example, if a woman earning $25,000 a year takes five years off from paid work starting at age 25 to stay home with a child, it will cost her $125,000 just in lost wages. Let's say she's a diligent saver and would have put 10% of her salary into a retirement fund. If she left that money in until age 65, she would have earned more than $600,000 in interest, assuming a market rate of return of 11%. (Admittedly, that's a pretty nice return given the stock market's last two years, but this is roughly what the market has returned overall since the 1920s, according to Ibbotson Associates.)

Added together, that could mean a price tag of over $725,000 in lost income because of those five years.

Social Security is harder to figure because your benefit is based on your 35 best years of earnings. If any of those years are zeros because of time off to care for family, a woman's 30-year average goes down, and so does her Social Security payment. Plus you don't know how Social Security benefits will change over the next 10 to 20 years.

## Caring for aging family members

And taking time away from paid work to become a caretaker for an aging parent or spouse is also painfully expensive. Women who take off an average of eight years later in a career to care for aging parents lose an average of $659,139 in lifetime wages, pension and Social Security benefits, a study by the National Center on Women and Aging at Brandeis University shows. And we're not talking top executives here; these women earn an average of $35,000 a year.

Taking time off creates a second barrier women must overcome.

As a group, women earn less, bringing in only 73% as much as men over the course of their lives, whether due to taking time off for families, inequities in the workplace or a propensity to choose lower-paying professions. The median income for women in 2000 was $27,355, according to the U.S. Census Bureau, compared with $37,339 for a man. That means the average woman is starting with a handicap of about $10,000 a year, or $400,000 over a 40-year career.

Women are also more likely to see their standard of living plummet if they get a divorce. They earn less, they take time out to take care of the family, and they live longer. It's a bad combination.

## Pensions for women are paltry

And then there's a third barrier. Only 29% of female retirees are covered by a pension, according to the Women's Institute for a Secure Retirement (WISER), and the average payout is only $3,480 a year. Add to that today's average Social Security payment of about $10,500 a year, and you're living modestly at best.

Part of the problem is that women change jobs an average of every 4.5 years, according to census figures, and old tax law required workers to stay five years to be eligible for a pension. The 2001 tax law, however, cut the vesting period to three years, so women now in the work force have a better chance to accrue pensions.

Still, about 40% of women aren't in the paid work force, and a large percentage who are employed work part time. According to WISER, only 16% of part-timers are covered by a company pension plan.

## Start now and be aggressive

So what's a woman to do? Start now and be aggressive. If you're married and working at home caring for children, make sure your husband puts the maximum into his 401(k), and then put a maximum you can into an IRA for yourself. Overall, your family should be socking away 10% of its gross income in retirement accounts. David Bach points out that since women live longer than men, they actually need to save about 12% of their gross income. If you can't even imagine saving 12% (that figure can seem daunting to women AND men), Bach recommends you start at 2% or 3% and increase it by 1% each month until you get up to 12%.

Don't just plan to. Do it. Set up an automatic deduction from your payroll or checking account so the money doesn't touch your hands.

"It takes away the issue of discipline," Bach says.

And don't bother telling Bach you can't. He and other financial advisers will be happy to show you where you can shave money out of your budget for saving. A few fewer lattes, a brown bag lunch or two, a conscious effort to save a few bucks at the grocery store, and you've got enough to start the investment ball rolling.

## It's time to take charge

In most families, the spouse who makes the most money is the one who controls investment decisions, financial planners say.

"It's like the old golden rule: He who has the gold makes the rules," says Kay Shirley, a certified financial planner, owner of Financial Development Corp. in Atlanta and author of "The Baby Boomer Financial Wake-Up Call."

In some 15% of families, the wife earns the highest income, according to census figures. In 26%, the spouses earn within a few thousand dollars of each other. But that means that in 59% of families, the man is making the highest wage-earner and making most of the financial decisions, and he's not the one who's likely to live the longest.

Some women defer because they believe men are better at managing money, but many women are plenty good at it. According to the National Association of Investors (NAIC), a nonprofit association of investors and investment clubs, women's investment clubs earned lifetime annual returns of 29% in 2000, the last year for which figures are available. The men's groups earned 30.6%. In a bad market, the tendency of women to invest conservatively may be to their advantage. Women research more before they buy and then remain loyal to their stocks, according to

NAIC. The longer they hold good companies, the more they make.

Men, on the other hand, trade 45% more often than women, according to research by Terrance Odean, an assistant professor of finance at the University of California at Berkeley. All that trading leads to more taxes and transaction fees and just plain bad decisions, so the men's portfolios Odean studied actually have performed 1.4 percentage points worse than women's. That means if a man's portfolio were earning 11%, a comparable portfolio belonging to a woman would earn 12.4%. Over time, that's a big difference. Odean's research shows that both women and men lose money when they trade because they consistently sell higher-performing stocks for lower ones. Women just do it less often.

## Get started and learn the language

The first thing the less-savvy spouse has to do is learn the language and concepts, says Karen Altfest, vice president of L.J. Altfest & Co., a financial planning company in New York City.

"Take a basic course like you might for pottery or ballroom dancing or whatever," she says. "You don't have to take over the family finances, but you need to know what's going on. I mean, if you both like to cook, but he prefers it, he can do it most of the time, but if he's out of town, you know you can take care of yourself."

Start by putting money in your company's 401(k) plan, if there is one. Check first to make sure it isn't heavily weighted in your own company's stock. Otherwise, you'll have both your employment and your investing eggs in one basket, which is exactly what happened to the unfortunate employees at Enron.

Once you've confirmed that the 401(k) has an array of options that appeal to you, maximize your investment. Only half of either men or women invest in their 401(k) at all, and they're turning down free money. That's because most employers match some portion of your contribution, so if they match 25%, for example, whenever you put in $100, they'll put in $25. That's an immediate 25% return on your investment! And it sits in there gathering interest as long as you stay in the program.

Meanwhile, you should consult a financial adviser to see if your planning makes sense. Yes, a planner will charge for services, but a qualified adviser will help you see and answer questions you may not have considered.

## Lots of eggs, lots of baskets

Diversification is more than just important -- as any Enron worker can now sadly attest. Many had invested nearly all their 401(k) contributions in company stock. When the company collapsed, their savings vanished.

You're going to want to own stock funds -- some growth, some value, some large cap and small cap. You will need some bond funds as well. That way, if the market soars, you'll get some of it, and if it tanks, the bond funds will help minimize your losses. It wouldn't hurt to keep some money in cash in a money market fund.

Outside your retirement fund, financial planners recommend, keep anywhere from three to six months' worth of living expenses in a liquid account for use in case of emergency.

Berkeley's Terry Odean recommends investing your stock portion in an index fund, which is a mutual fund that moves with the broad market, and leaving it there.

"Money managers may be skilled, but they'll charge you money for it, and your chances of picking the one who has skill rather than the one who had a lucky year are slim," he says. "Just be satisfied with the market return and you'll do better than the average money manager over several years."

Since the market has gone up an average of 11% per year over any 15-year period, he may have a point.

## Other approaches to managing the nest egg

Kay Shirley disagrees. And boy does she.

"Index funds were a no-brainer when the market was going up," she says. "But you need management when the market's going down. Enron was in the S&P 500 and people rode that stock right down to 43 cents before Enron was removed from the index."

There are about 13,000 mutual funds out there, although most 401(k) plans limit your options to less than a dozen. At least that narrows down the decision.

If you're trying to save for retirement outside a 401(k), either in a taxable account or, preferably, an IRA, look for funds with an average annual track record of 13% to 14% net after fees, she says, and make sure those figures include 1973 and 1974, when the market went down a total of 40%. Then make sure the same decision-making model is in place. You don't want a fund that was managed by just one person and that person is now gone. You can easily research this using online databases like MSN Money's mutual fund research section. Look for the phrases "team-managed" or "model-driven," she says. Those criteria alone will narrow the field to about 200 funds.

You also can consider subscribing to a financial newsletter that tracks funds for you. Check out The Hulbert Financial Digest (see link at left) to find a good one.

## Now, don't touch it

Patricia Quaglieri, 66, of Duchess County, N.Y., wishes she hadn't. Her husband died when Quaglieri was only 36, leaving her with four kids and no college education. She worked weekdays and took classes on the weekends toward her degree, and she just couldn't find any money to put away toward retirement. Eventually she remarried, but to an older man who also didn't have a pension. She was working as a secretary, putting away $25 a paycheck for the both of them. Then times got tough, and she dipped into her small pension fund, robbing her own retirement and paying taxes and penalties.

"In hindsight I never would have touched that money, no matter how hard things got," she says. "I regret worrying about bills, because there are always more of them. To pay off my charge card with money I was saving for a pension was just stupid."

When her second husband died, she had to move in with her daughter. Now she lives on $1,382 a month in combined Social Security and pension income and has taken a part-time job.

On the other hand, Barbara Pieper, 54, of Lawrenceville, Ga., worked for 32 years for BellSouth, first as a telephone operator and eventually as a manager, always diligently investing in the company's 401(k) plan.

"Even when I had two kids and probably couldn't afford it, I always put something in," she says.

Pieper, who is divorced, retired last year to spend time with her ailing mother and stepmother. She rolled her nest egg immediately into a new retirement account. Now she is looking to start a challenging new career and build a second retirement fund. Not right away, though. She's too busy planning her April wedding.

Happily ever after, anyone?

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