



# A Woman's Guide to Financial Readiness

Being Prepared for the Unexpected

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## With change comes uncertainty

There's no question that times of change, particularly unexpected and unplanned change, can be highly stressful. Yet despite its unsettling nature, change is a necessary and unavoidable fact of life. And in many respects, it can serve as an immensely positive impetus, propelling one forward in new and unexpected directions.

But two life changes in particular — divorce or the death of a spouse — often prove especially challenging for women. Not only must one come to terms with emotional upheaval, but an already difficult situation is often exacerbated by the stress of having to deal with a wide array of financial considerations that may never before have been a concern.

## The gender-based planning imperative

While most people, regardless of gender or relationship status, need to step up their savings in order to help ensure a successful retirement outcome, the simple fact of the matter is that women have an even greater need to prepare for the unexpected. Unfortunately, demographic and economic realities tend to conspire to intensify the financial and economic impact of life change events on women.

On average, women will live five years longer than men, an inherent gender advantage, but one that comes with additional financial burdens. Five extra years of life will require five more years' worth of retirement savings. And

even though the pay gap has narrowed, on average women still only make 78% of what their male counterparts make. But it's the income loss that many women face in opting to temporarily leave the workforce to raise children that can have the most dramatic effect on wealth accumulation.

On average, women lose approximately 10 times more of their earning years (14.7% compared to 1.6% for men), and that also means they're far less likely to be covered by a company pension plan due to part-time schedules and/or too few years with one firm to be fully vested.

	Women	Men	Conclusions
Longevity	<b>80.5 years</b>	75.5 years	Women live longer than men <sup>1</sup>
Wages	<b>78¢</b>	\$1	Women still make less than men <sup>2</sup>
Years out of Workforce	<b>about 7 Years</b>	about 9 months	Women lose approximately 10 times more earning years <sup>2</sup>

All women, both single and married, are impacted by the gender pay disparity that can have a huge effect on the quality of life in retirement. Research suggests that many women, even those who are considered wealthy, can suffer a strong, fear of running out of money as they age.

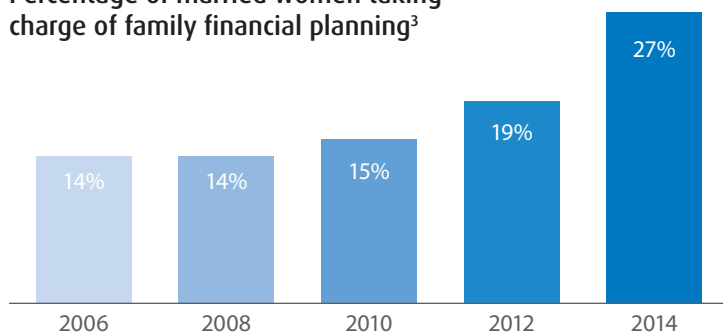
*"It is never too late to become what you might have been." – George Eliot*

## Women assuming an active role in planning

A smaller financial safety net generally means a smaller margin for error—so it's vital to begin planning earlier. Past generations of women often turned the financial reins over to a husband or trusted advisor, but doing so inevitably left them financially in the dark. Many had little knowledge of how much was saved and in what accounts, where important papers such as wills, insurance policies and trust documents were kept, or how much debt they were carrying. When the time came for these women to assume control of their finances, they were often ill prepared.

Today, however, the tides have dramatically turned. One extremely positive sign is the increasingly active role that many women are taking in planning for their financial futures. Nearly half (44%) of all women are the primary breadwinners in their households. And while the vast majority of those who are single, divorced or widowed oversee the management of their wealth, we've also seen a doubling (from 14% to 27%) in the number of married women who have taken hold of their family's financial planning reins.<sup>3</sup>

**Percentage of married women taking charge of family financial planning<sup>3</sup>**



## Taking the sting out of the unexpected

Nobody wants to think about a possible divorce or the inevitable death of a spouse, but the bottom line is that 90% of women will be on their own at some point during retirement. In fact, since the 1980s, female heads of household have grown by a staggering 240%.

While much of this surge is due to the large number of women choosing to remain single, many find themselves thrust into this new role as the result of either divorce or widowhood. In these situations, dozens of critical financial decisions need to be made often precisely at a point in time where emotional upheaval and stress are at their highest. The negative impact of poor financial decisions made during this time of transition can be far-reaching, not just on the individual but on her family as well.

Although the overall national divorce rate has declined steadily in recent years, “gray divorce” (among a new generation of 50-65 year old baby boomer empty-nesters) has skyrocketed to its highest level on record. In 1990, roughly one in ten people who got divorced was age 50 or older. That number now stands at roughly one in four. In 2009 alone, more than 600,000 Americans age 50+ got divorced.<sup>4</sup>

That's why advance planning, even if those plans never have to be put into action, is so critical—providing women with a financial road map just in case the unexpected should happen. Advance planning helps individuals to better understand the basics of wealth management, to get organized and know where the money is and what it's doing. And the first step is to sit down with one's team of advisors (e.g., insurance agent, banker, financial advisor and attorney) to ask them for help in bringing one's overall financial picture into focus.

## Making initial preparations

Too often, one spouse handles all the family's finances. In order to be prepared for the unexpected, it's important that both spouses be familiar with all the family assets and liabilities including:

- *Bank accounts*
- *Investments*
- *Insurance*
- *Real estate*
- *Mortgages*
- *Equity loans*

All important documents should be kept well-organized and accessible, as the last thing anyone wants in the midst of emotional upheaval is to be scrambling to find necessary documents. Maintain an updated listing of all various account numbers along with user IDs and passwords for online access. If a woman is not the primary bread winner, it's particularly important to build a personal credit history.

Additionally, women should take time now to learn about the available life insurance and disability insurance options that are available to them and their spouse if married. If the family has any trusts in place (e.g., a credit shelter trust), women need to understand not only the current trust structures, but also what happens if a spouse passes away. Who are the trustees? If a stepchild is named as trustee, perhaps that designation could be changed to avoid a potentially contentious situation down the road.

Similarly, beneficiary designations should be reviewed on all life insurance policies and IRA accounts, particularly in blended family situations. It's never a good idea to just assume that one is the beneficiary on any policies or accounts.

Lastly, it's imperative for women to obtain a clear picture of their family's debt situation, including all mortgages, equity loans and lines of credit. And don't wait until the credit is needed to lay the groundwork for obtaining it. All women, especially those who are married, should have one or two credit cards that are solely in their name and that they use regularly to help establish personal credit.

It's a good practice to understand the full breadth of one's financial picture, and to keep it updated as things change. This includes keeping a finger on the pulse of all sources of income and expenses associated with maintaining one's lifestyle. Although it may be hard to envision, being prepared for the unexpected is essential to minimizing any negative financial impact to one's day-to-day lifestyle. A financial advisor can help develop a plan that addresses both short-term and long-term income and asset needs, as well as identifying ways to fund those potential future needs.

## Financial planning for the suddenly single

Finding the path to a sense of security can be a long road, but made easier with a solid understanding of what one has, determining what one owes, and deciding what one will need for a comfortable future. Five fundamental areas need to be addressed:

- *Cash Flow Analysis*
- *Banking Needs*
- *Investment Analysis*
- *Insurance Assessment*
- *Trust & Estate Planning*

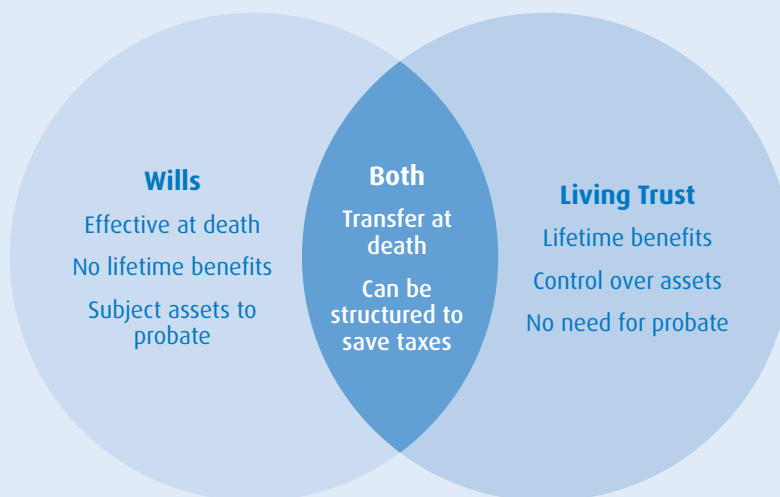
The first priority is to understand assets and income and how they correspond to specific lifestyle needs and expenses. A good financial advisor will conduct a cash flow analysis, looking at inflows and outflows (including property and income taxes) over a period of time in order to determine how long current spending patterns can be maintained and whether adjustments need to be made to improve one's long-term financial security.

An experienced financial advisor can also work to review current banking services (checking, savings, money market, credit cards and mortgages) to ensure that they adequately meet ongoing needs. For example, in cases where a former or deceased spouse handled all the family finances and bill payment, it may make sense to establish online bill payment to avoid having to assume the monthly burden. At a minimum, joint accounts will need to be retitled and beneficiaries updated.

## Wills & Living Trusts

Wills and trusts are vital estate planning tools, with each providing specific benefits and direction as to how an individual's assets should be distributed at death.

Regardless of one's marital status, it's important to work with an experienced trust and estate attorney to develop a comprehensive estate plan.



In light of any sudden change in circumstances, investment portfolios should be reviewed to ensure that the objectives and mix of assets still make sense. Will it be necessary to generate more monthly income? Perhaps a more conservative or more aggressive investment mix should be considered based on one's objectives and risk tolerance. The impact of these and other changes can be readily assessed and implemented to reflect individual needs and preferences.

Often, the death of a spouse or divorce will leave the newly single either over- or under-insured, so a review should be conducted not only of life insurance coverage but also to make sure that various other policies such as auto, home, property, disability and long-term care insurance are all up-to-date and adequately reflect current needs.

And lastly, don't forget that wills and trusts should be reviewed and potentially amended to reflect changes to the executor, beneficiaries and/or successor trustee. To ensure that the changed circumstances and any future wishes are properly addressed, an experienced financial advisor and attorney should review and assist in updating existing documents and in creating any new plans or documents.

Whether married, divorced or unmarried, the financial burden on women is often greater than that which men face, as a direct result of the need to fund a longer life expectancy.

## Other life changes

There are other transitional events that also will likely warrant a careful review of financial and estate plans. The sudden loss of a job, while not rising to the level of losing a spouse, can still be a highly stressful and financially difficult time of life. Similarly, an accident or unexpected disability can also derail financial plans. And increasingly prevalent among "sandwich generation" baby boomer women are the emotional and financial strains that often come with caring for one or more aging parents while still financially supporting their own children. A quick glance at the \$70,000+ average annual cost of nursing home care illustrates just how profound a financial impact elder care can have on a family.

## Conclusion

While it's important for all investors to understand their financial situation, know the type of lifestyle they want to lead, and take responsibility for ensuring that plans are in place to fund that lifestyle, it's especially critical for women. Whether married, divorced or unmarried, the financial burden on women is often greater than that which men face, as a direct result of the need to fund a longer life expectancy.

The significance of securing the advice and trusted counsel of experienced professionals to assist in developing and/or reviewing critical documents and ensuring that they are up-to-date and reflective of one's wishes, simply can't be overstated. And the time to do that is now—before the possibility of an unexpected development throws a wrench into a lifetime's worth of work and plans. The specter of finding oneself suddenly single can be daunting, but with a thoughtful and comprehensive plan in place, even the unexpected can be navigated should it come to pass.

<sup>1</sup> U.S. Census Bureau, Statistical Abstract of the United States, 2012

<sup>2</sup> U.S. General Accounting Office, 2012

<sup>3</sup> "Financial Experience & Behaviors Among Women," 2014-2015 Prudential Research Study

<sup>4</sup> "The Gray Divorce Revolution," Prof. Susan Brown, Bowling Green State University, 2012

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