Financial Planning for Women

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Just about every woman has gone through the frustration of watching their husband try to navigate his way to a party you're late for at a house you have never been to. You have no idea where you are, and neither does he. The difference is, you can admit it.

Men are notoriously bad at asking for help. Try getting them to stop and ask for directions or to call the plumber to fix that leaky sink they have repaired twice. So why is it that many women are comfortable with leaving their long-term finances and retirement planning to their husbands? Are you sure he'll ask for help if he needs it? Will he know enough to get out of a bad situation if one arises? If in the past you've taken a backseat to your husband in terms of your family's finances, it's time to get in the driver's seat.

Men and women each have unique skills, and both provide value in the handling of the household finances. Many women tend to be detail-oriented and task driven, and many already handle the day-to-day finances (paying bills, balancing checkbook, etc.), while the men--who may be more goal focused and results driven-- handle the long-term planning for retirement and college savings.

All of these skills can benefit your family finances, which is why both spouses should be involved. Like it or not, most women will have to take over the finances eventually. Statistics show that American women outlive men by an average of up to 5 years. If your husband is a few years older than you, that could mean a decade of handling your money alone.

Some women find this intimidating. Perhaps their husband has always handled the money; perhaps they have no understanding of finance. Ignorance is not bliss. Just ask the many widows who must manage their finances having never done it before. Some are even unsure of where vital documents are stored. This article is a primer to help you get a general understanding of how you can manage your family's money or, if you already do, help you avoid potential pitfalls.

Budgeting & Savings

There is no easier way to move yourself and your family toward financial freedom than tracking your expenses. Living on a budget seems, to most, the equivalent of financial dieting, but it is the best way to make sure that you are living within or below your means. Financial success comes simply from spending less than you earn.

You don't necessarily have to tighten your belt or cut out morning coffee, but you must be accountable for your spending. One of the biggest reasons most people overspend is because they do not keep track. There is no psychological recourse to buying those expensive shoes. Tracking your spending makes you not only enter each cost into your budget, you then have to reconcile them at the end of the month when your spending was higher than your income. Budgeting is the checks and balances to those free-spending habits that feel good at the time but leave you feeling empty every month when you have no savings to show for all your hard work. Those months turn into years, and there are few things more depressing than looking back to see what you've earned over the past five years and then realizing you've kept nothing.

Budgeting begins with savings. Set your savings goals first. I always recommend adhering to the old adage "pay yourself first." Many of my clients will try to cheat during this exercise. They say to me, "But how do I know how much I can save when I don't know my costs every month." That is the backward thinking that leads to spending every dime every month. Set a savings goal of 5% to 15% of income per month, then plan your spending around the balance. I promise you that it can and does work. There may be a few things that you might have to cut back on, but you will be glad you did in 10 years, when you've accumulated a sizable nest egg.

Investing

Now that you've saved some money, you will want to put that money to work for you. Train your money to go forth and multiply. First, you must set up an emergency reserve account. This is an account that is fairly liquid that holds three to six months of expenses.

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Many people resist this idea. They don't understand why they should keep money in a money market fund earning 2% when they have a debt with a 14% interest rate or can contribute to a retirement account and earn 9% to 11%. It is important to remember that this emergency fund is not for growing wealth. It is more of an insurance policy to protect your wealth. I can't tell you how many times I've heard of people failing to create this account and borrowing from credit cards, dipping into retirement accounts, or tapping home equity when they get into a jam. This can lead to high fees, costs, penalties, and liabilities when you are already in a tough place financially. Create this safety net to protect your financial security.

Once your emergency fund is set up and as you are working to build it, look toward retirement. Save as much as you can in tax-sheltered accounts like a 401(k). Always contribute at least the minimum to receive the employer match. Diversify these accounts using mutual funds offered in the plan across broad sectors. Look to invest in large-cap growth, large-cap value, small-cap, international, and bonds. The biggest mistake I find most people make is looking at the one- or five-year performance of a fund and investing based off of this. It is more important to look at the funds expenses. Focus on keeping the expense ratio of your fund as low as possible and invest in index funds if they are offered.

Insurance
Probably the least sexy aspect of financial planning is insurance. Unfortunately, insurance is a necessary part of any good financial plan. None of us would think of driving without auto insurance or purchasing a house without fire insurance, but many will happily avoid life insurance or long-term care insurance. Many I speak with say, "I'll take my chances." This is a risky and sometimes dangerous philosophy. How comfortable would you be financially if your husband passed away tomorrow? Could you pay your bills? How would you make ends meet? I strongly encourage women to get involved and insist that their husband have some form of life insurance to help you if the worst were to occur. It is also important to make sure there is some form of long-term disability policy covering the breadwinner of the family. Disability is twice as likely as death.

Taxes & Fees
How would you like to get a tax-free raise of $5,000 this year? You can. Spend some time learning about ways to save on your taxes and cut your investment fees. It's like putting money right in your pocket… tax free. A study done at Wisconsin University showed that the average person paid more than $5,000 a year in additional taxes and investment fees that they could reduce simply by becoming a bit more educated on the subject. Reduce your mutual fund fees to no more than .30%, avoid loaded funds, and avoid trading in and out of the markets and incurring huge trading costs. Eliminating these fees alone can significantly pump up your investment returns. Remember, it's not what you make, it's what you keep.

Get involved in your family's finances and, if you are already involved, learn as much as you can to maximize your results. Don't be afraid to seek help from a professional when the need arises. Too many people think they can do it themselves, and although that may be true, most don't know the tremendous advantage a good professional can provide them.

Women offer strengths to the family finances that most men don't have. Don't be afraid to use them. It is better to be involved now than to be forced to take on the finances yourself if something were to happen to your husband. Don't be caught off guard. Be prepared.

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