Women and money – getting into good financial habits

Women generally face more financial hurdles in their retirement than men for a number of reasons. Broken work patterns to raise children, lower average earnings, and longer life expectancy are the main causes. Therefore women need to take action when they are young so that they are not significantly disadvantaged later on.

The financial gap that opens up over a lifetime due to many women spending less time in the paid workforce than men is significant. Over the next 40 years, for example, a 25-year-old male is expected to earn (on average) $2,500,000. In the same period, females are expected to earn just $1,500,000. That is a $1 million difference.

With the compulsory employer superannuation system entirely based on earnings, it's not hard to see how the gaps identified above directly impact the amount of super women accumulate during their working lives.

Getting into good financial habits

Following are 10 good financial habits to help you make the most of your wealth accumulation strategy.

1. Start with the basics

The foundations to achieving your financial goals start with getting organised. This means you need to start with the basics – complete a budget and understand your expenditures. This will also allow you to manage your cash-flows to meet your ongoing expenses.

Reducing your personal non-deductible debt (such as credit card debt) and seeking to understand why you have accrued it in the first place is essential. From this point onwards you need to start saving and determining what goals you wish to achieve.

2. Improve your financial literacy

Financial literacy is the ability to make informed judgements and effective decisions about the use and management of money. It is an essential skill for functioning in modern society and is becoming increasingly important in achieving your financial goals.

You can improve your financial literacy by busting though the jargon as a starting point whilst taking your time to understand both simple and complicated matters. Your confidence will grow over time and confidence comes through understanding.

3. Take control and build your super

Taking control of your super starts with improving your knowledge. Start by tracking down any lost super and providing your tax file number to avoid paying 46.5 per cent tax on your employer contributions. Consolidating your super into one account is also important.

There are a number of ways to build your super and even small contributions can make a big difference over time:

- Salary sacrifice: if you are working, ask your employer if you can pay part of your pre-tax salary into your super fund.
- Government co-contribution: the Federal Government may match your personal after-tax contribution to super if you meet the eligibility criteria.
- Partner or spouse contributions: if you have a low income or are not working your partner or spouse may be able to contribute to your super. Making contributions to your super on your behalf may deliver them a tax rebate which may assist in reducing their tax liability while at the same time building your superannuation.

A financial adviser can help you to work out whether you would benefit from making additional super contributions or even access the co-contribution scheme based on your goals and objectives.

4. Understand investment risk

An integral part of your wealth accumulation strategy will be investing into assets such as fixed interest, property and Australian or international equities. It is essential to understand potential investment risks and be comfortable with the impact of decisions you make (such as how much risk you're taking on). A simple way to gauge your risk appetite is to weigh up whether you could sleep at night knowing your investments are either gaining or losing money.

5. Understand your investment options

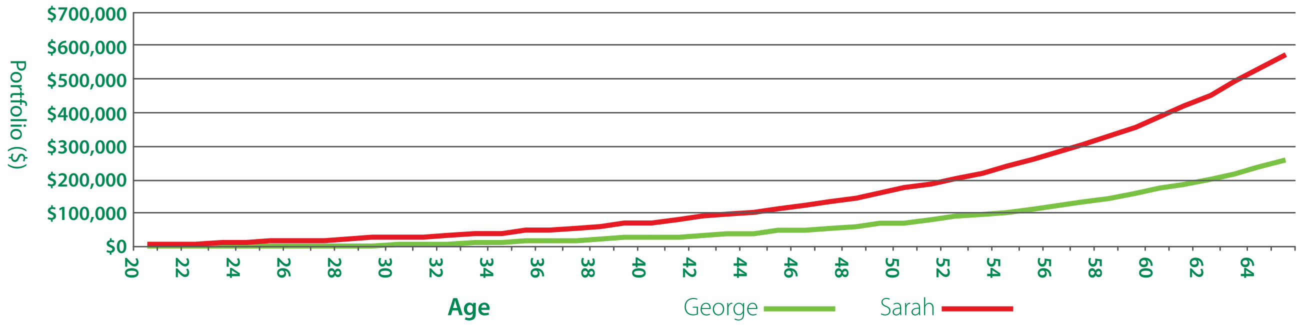
As a consumer, you probably wouldn't purchase a product you didn't know anything about – you would complete some research to get a greater understanding. The same principal applies to investments. You need to understand what you are investing in, what investment options exist and if these options are suitable for you.

6. Harness the power of regular investing

Making your money work harder for you is good practice. The easiest way to do this is to harness the power of regular investing. Investing regularly over a long period of time allows you to take advantage of compounding investment returns. The following example will show you how the power of compounding investment returns allows Sarah to build a larger portfolio than George by age 65.

George (age 30) invests $5,000 into a managed fund* and adds $1,000 each year until age 65. • Sarah (age 21) also has $5,000 to invest. She invests the $5,000 in the same managed fund* as George and adds $1,000 per year until age 65.

Comparison of Sarah and George's portfolios



7. Protect your most valuable asset

Your ability to earn an income is your most valuable asset. All of your future plans depend on it. If you're unable to work due to illness or injury, you lose this valuable asset – unless you have the right insurance arrangements in place. You should seriously consider taking out appropriate insurance cover (income protection, total and permanent disablement and trauma) to ensure your financial stability is protected.

8. Make the right estate plans

It is estimated that 54 per cent of Australians die without a Will[1]. Creating one is a vital aspect of your estate planning which should also include enduring power of attorney, medical power of attorney, guardianship of your children and a binding death benefit nomination within your super account.

Having a Will in place can help provide certainty and direction to your family, on your desires and wishes, upon your death.

9. Develop a strategy

Clear direction to help achieve your goals can be formulated in a strategy within a financial plan. Your financial plan can be likened to a road map. However, it's likely to change over time as your circumstances change. It will take into consideration your current situation, goals and objectives, and change in line with your future circumstances.

10. Seek advice and select a financial adviser

Seeking advice from a licensed financial adviser will ensure you work towards achieving your financial plan whilst having your own financial coach. Choosing a financial adviser is a very personal choice and you must feel comfortable with the adviser you choose. Speak to friends and family about their experiences. Alternately, you can visit the Financial Planning Association Good Advice website www.goodadvice.com.au for more information.

Phone us on 1800 062 963, email clientservices@ioof.com.au or visit our website www.ioof.com.au

* Assumes a return of 8% pa and earnings are reinvested

1 Survey conducted by the NSW Public Trustee 2008

Sources:

www.hreoc.gov.au (About - Media Centre - Speeches - Sex Discrimination) "Accumulating poverty: Women's experiences of inequality over the lifecycle" Elizabeth Broderick.

www.abs.gov.au/ausstats - Average Weekly Earnings, May 2011, Cat No 6302.0 (2011).

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