Preparing for Retirement

[Host]

Both men and women have equal opportunities for borrowing, investing, and saving. However, their situations and decisions are often completely different. When it comes to planning for retirement, this disparity is especially apparent. Retirement planning can be difficult for anyone but is often particularly difficult for women. Men, women, and couples all use the same math and retirement principles, but women typically live longer, earn less over their lifetime, and have more challenges because of gender stereotypes. Unfortunately, women are therefore more likely than men to become poor after the age of 65.

When a woman is preparing for retirement, there are three main challenges. In today's podcast, we will discuss these challenges, and provide some tips to help plan ahead and mitigate them.

The biggest retirement issue for women is lifespan. The great news is that women have more life to live! Despite how great that sounds, there are consequences to living longer. According to statistics, a 50-year-old woman in India still has almost 21 years to live, compared to 18 for the typical male. Therefore, regardless of age, women must save for longer periods of retirement than men. Additionally, if you're married to a man, there's a significant statistical possibility that you'll live longer than your partner and will be responsible for paying for your own household expenditures and medical care. Your extended life expectancy makes it more difficult for your savings to sustain you throughout your retirement.

A long-standing and continuing salary differential between females and males is the second key challenge that women face with respect to retirement. According to the Monster Salary Index published in 2019, the average woman in India earns 19% less than a man. Of course, this disparity is a key factor in your ability to save for retirement and poses a number of difficulties that may affect your retirement.

The third challenge for women in saving for retirement is the traditional lower involvement of women in household finances. According to recent statistics, only about 60% of women said that they are either independently managing their own money or are actively involved in financial decision-making with their spouses. Even though many women have indicated that their goal before getting married was to share financial responsibilities equally, it seems that those good intentions were often put aside.

Women may lack knowledge of key financial issues, like household debt levels and retirement readiness, due lack of access to information about daily money and long-term planning. Many women do not have open conversations about money management in their own homes. As such, women who have been widowed or divorced may need to catch up quickly if they are suddenly required to handle all of their financial decisions on their own.

One important thing to remember is to always keep an eye on your credit to ensure you maintain the highest credit scores possible. That way, if you find yourself in a situation where you have to become independent by having your own home, car, or bank accounts, you need not worry about having either no credit or a low credit score.

In short, because women typically live longer than males, they will likely need to support themselves longer in retirement. However, women frequently make less money than males and only sometimes work. According to World Bank estimates, only about 20% of women in India participate in the labour force, making it one of the lowest female work participation rates in the world. Women, consequently, are likely to have lower retirement funds. Women are also less likely than males to say they are highly confident about having enough money to live well in retirement, especially single women.

However, this does not imply that women will always experience financial hardship as they age. We have compiled the following checklist for you to put into action right away to increase your chances of having a secure retirement or, alternatively, to enhance your financial outlook while already in retirement.

Our most important piece of advice is to start early! Small sums set aside while you're young have the opportunity to become much larger sums of money as you get older if you invest your money properly and leave it to grow over time. Of course, it can be challenging to save for retirement or to save as much when there is less money coming in for women than men. However, if you follow the retirement rule of thumb that most experts recommend, you should save at least 15% of your pre-tax income for retirement. The key to success is to take that 15% of your income, invest it immediately, and then allow it to grow over time.

If possible, participate in your employer's retirement plan. If you haven’t asked already, find out if your company has a retirement or pension plan, which may provide you with an additional source of income during your retirement. With company plans, you can contribute to a retirement plan and, in some cases, your employer will also match your contributions to a certain maximum amount.

As I referenced earlier, it is imperative that you invest all of your retirement savings. According to numerous studies, women tend to invest too conservatively, which can be detrimental in enabling you to adequately provide for your future. If you invest too conservatively, you run the danger of not accumulating a sizable enough retirement nest egg. One of the most important investment considerations is to invest in equities or equity mutual funds because they historically have the highest long-term investment return.

When determining which equity investments are best for you, it’s important to either do the research and selection on your own or to rely on a professional to do it for you. If you haven’t already, you should consider learning more about mutual funds and exchange-traded funds or find a trusted financial advisor who can do it on your behalf. One interesting and popular investment product, which is designed specifically to meet retirement needs, is to consider a target-date mutual fund, which is indexed to your retirement date and holds a mixture of stocks, bonds, and other assets that automatically gets more conservative as your retirement draws near.

Women are more likely than males to invest wisely over the long term and are less inclined to react negatively to short-term market fluctuations. According to recent studies, women have a tendency to maintain a sizable amount of cash on hand. Being overly cautious could prevent you from experiencing long-term opportunities that can help you better achieve your retirement objectives.

Your needs and circumstances, such as how much money you've already saved and when you anticipate retiring, will determine the best investment mix for you. Once per year or anytime your life changes, you should revisit your tolerance to risk. Although you do not have to adhere to the advised outcome, it is useful to gain an impartial understanding of how much risk may be suitable for you.

It's really important that you understand and maximize your social security benefits. Currently, in India, only about 35 million out of a labour force of 400 million have access to formal old-age income. Of these 35, about 26 million are members of the Employees' Provident Fund Organization (EPF), which is made up of private and civil workers, military, and others. With the EPF, both the employer and any employee earning up to INR 15,000 per month must participate. For employees who earn more than INR 15,000 per month, participation is voluntary. An employee can withdraw their provident fund completely when he/she reaches retirement or is unemployed for two longer than two months.

Pension support in India is targeted at people between 60-65 years of age but, to be eligible, you must be at least 60 and below the poverty line.

So you can see why it's important that you educate yourself on all of the social security programs and benefits available to you, as there are a number of different ones in India, and that you maximize any and all contributions from as early an age as possible. These benefits can have a big impact on your ability to live a happy and stress-free retirement. The reality is that you might need to increase your savings or reduce your spending to make up for your social security payment. You must also ensure that you don't leave any money on the table as you might be eligible for retirement benefits as a widow or an ex-spouse if you are married or have been married in the past.

If you are married, it's also important that you are named as the beneficiary of your spouse's retirement accounts in the event of their death. You should be the principal beneficiary of your spouse's retirement accounts, not your mother-in-law, your spouse's ex-wife, or your spouse's children from a previous marriage unless you've agreed to such an arrangement. Always remember that beneficiaries listed on pension plans and life insurance policies have legal precedence over those included in a will. Therefore, it's crucial to check and update all of the beneficiaries on both your and your spouse's accounts.

Another piece of advice is to take advantage of any pension that your employer offers. Some pension plans use the highest three years of earnings to determine your monthly retirement payment. After receiving raises, those are often the years approaching the end of your employment. However, your pension may be less than it should be if the wage gap has reduced your earnings. You are entitled to a survivor benefit if your spouse qualifies for a regular pension. If you choose a survivor benefit, your spouse will receive less money while he is alive, but you will still receive payments when he passes away.

It might make sense for your spouse to take full benefits during his lifetime if you don't expect to outlive your spouse, if you have your own pension or other financial assets, or if you don't expect to outlive your spouse. This is especially true if you and your spouse won't need the full amount of benefits and can invest any excess.

If you are divorcing, you should consider negotiating assets for retirement. Retirement savings may be a couple's largest asset after the divorce. Make sure it is on the table when you negotiate a settlement because you are not necessarily entitled to a portion of your spouse's plan after divorce. Ensure you have covered all of the bases with your attorney in this regard.

You should always consider purchasing long-term care insurance. Experts typically advise purchasing long-term care insurance (LTC) in your fifties or early sixties to help offset the expense of in-home, assisted living, or nursing home care. Purchasing a shared-benefit policy that offers a pool of benefits either spouse can access is a smart move if you're married. The fact that prices are typically higher for women means that purchasing as a couple also tends to level out the cost.

If your employer offers long-term care insurance, single women, in particular, should take it into consideration. Workplace regulations often mandate that women and men are charged the same rates, and these policies typically offer a 5–10% reduction than if you were to purchase it on your own.

If you're married, actively participate in financial decisions and keep up to date with the financial situation of your family. Although you may be too busy or simply not that interested in the financial aspects of your life, you still need to be aware of what is happening. Some couples schedule a monthly or yearly "money date" to discuss their financial situation and long-term objectives.

Most importantly, you must ensure that you plan ahead. With a plan in place, you may improve your financial confidence, develop positive money habits, and seek advice on crucial issues that might not otherwise cross your mind.

A simple retirement strategy addresses issues like when you can quit working and how much you may anticipate spending annually. It should also take taxes and medical costs into account, which reduce the amount you have left for spending.

The forecast you come up with should show how much retirement income you will have depending on how much you're saving and how your investments do. While your plan won't be able to forecast the future with absolute accuracy, it can help in problem-solving, assist you to avoid unpleasant shocks, and increase your chances of retiring comfortably.

Of course, you can save more if you earn more. Additionally, your benefits from Social Security and your pension (if applicable) will be larger if they are based on these higher earnings.

Although it's easier said than done, during your working years, maximizing your income should be a top priority. That entails, among other things, being aware of your value and creating approaches for requesting promotions and pay increases.

No matter how much you plan, you can't predict life. So always be ready for that and keep a buffer amount handy.

Today’s podcast is coming to an end, and I certainly hope you have learned some valuable tips on how to best prepare for a happy and stress-free retirement. If you haven’t done so already, I urge you to put these tips into action.

Thank you for joining us, we hope to have you join the next episode of ForHER soon!