A WOMAN'S GUIDE TO PERSONAL FINANCE

Settling Down

Cultivating your finances now can improve your future peace of mind.

There's not a fixed timetable to help you decide when it's time to buy a home, commit yourself to a long-term personal relationship, get married, have children, or any of the other landmark events that are bound to change your life. But by anticipating the financial responsibilities that settling down is likely to bring, you can eliminate some potential problems right from the start.

IN THE HERE AND NOW

What can you do to be in a secure financial position in the present?

Control debt. You can maintain your financial footing by watching your short-term debt. If you owe money on your credit cards, it's smart to limit the number of cards you use and lower the balance you keep on them.

Calculate your net worth. Subtract your **liabilities**, or the total amount of debt you owe, from the total value of what you own. The result is where you stand financially.

Build a good credit history. Pay your bills on time, and stay up to date on the status of your credit cards and bank accounts.

BUILDING A CREDIT HISTORY

For most people, the word credit immediately brings credit cards to mind. Although the two are related, building a credit history is a bit different from merely using a credit card.

Your credit behavior is tracked by three major credit reporting agencies, which gather data from all your lenders and create a profile that shows your payment history, collections that lenders have had to make from you, and bankruptcy filings, if you've had any. If you've had a history of these events, your credit rating will suffer and you may find it difficult to borrow money. But paying your bills regularly and on time can help you maintain a solid credit rating and keep you in good standing for loans when you need them.

Federal Reserve research shows that 40% of credit card users pay their entire balance each month, but those that carry credit card debt owe an average of $2,200.

BUYING A HOUSE

When you're ready to buy a home, you generally start by looking for a mortgage, a very specific type of loan. Without a mortgage, you'd have to save the full purchase price—not something that most people can do. As an added bonus, mortgage interest is tax deductible, so you can reduce what you owe Uncle Sam as you put a roof over your head.

Qualifying for a mortgage requires good credit. Because a mortgage is a long-term loan, you'll need to show your lender that you have a solid history of repayment, as well as a steady source of income and a strong job history.

GETTING MARRIED

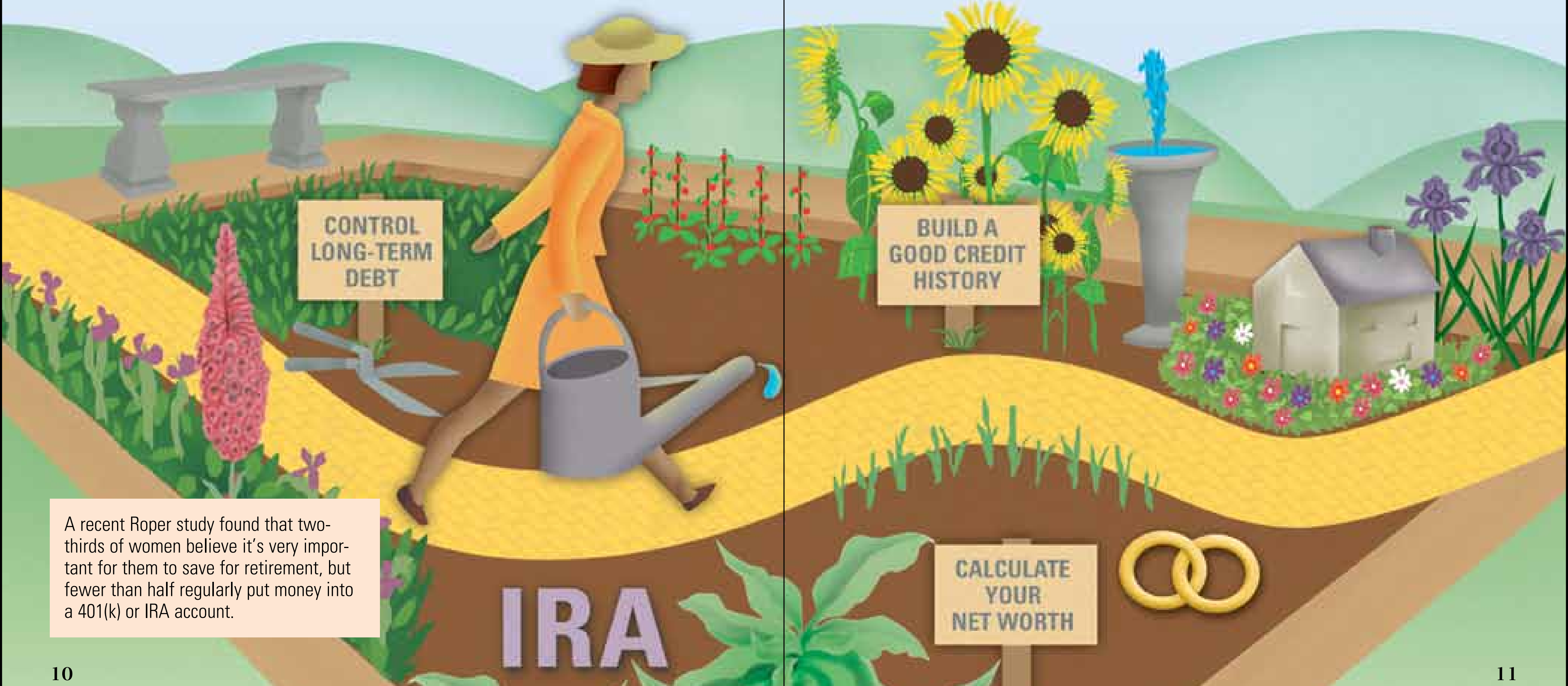
If you and your partner are thinking of making a lifelong commitment, you can decide together how you want to handle your finances. Will you file your taxes together or separately?

If you buy a home, will you have joint ownership?

Every couple handles their money differently. Some combine their funds in joint accounts, while others keep their savings separate—and some choose to have both joint and separate accounts. No matter which approach you choose, it's crucial that you both agree to it, since unsettled money matters can lead to arguments, financial problems, and even divorce.

RETIREMENT PLANNING

Have you been putting money in an IRA? Do you contribute to a 457 plan? Your retirement planning can forge ahead at this time. Companies often wait until you've worked at least a year before offering you the opportunity to participate in a salary reduction plan. If you've reached your eligibility date, now is the time to start contributing to your retirement account or accounts.



A recent Roper study found that two-thirds of women believe it's very important for them to save for retirement, but fewer than half regularly put money into a 401(k) or IRA account.

Being Prepared for Change

Financial stability can be rocked by an unexpected storm.

It's rewarding to enjoy financial security. You have probably worked hard to establish your career and earn a comfortable income. You may have already survived the pressure of buying a home and paying college tuitions, and are looking forward to predictable monthly expenses. While breathing a sigh of relief is tempting, it can be dangerous to relax so much that a drastic change can blindside you and your finances.

How would you manage economically, for example, if you couldn't work because of illness, disability, or job loss? Although thinking about these issues is never fun, you'll want to prepare for the unexpected to protect your financial security.

A major change in your relationships can also surprise you. If you're married, you might lose your husband through divorce or death. The financial factors might be especially hard to face because of the emotional impact of this type of event.

FOOD FOR THOUGHT

27% of women in the US aren't married, 37% have been divorced once and 25% have been divorced twice by age 55. About 75% of married women are eventually widowed.

US Bureau of the Census, 2006

For example, you'll probably have to open new bank accounts or take your husband's name off existing ones. You may need new credit cards if you don't have one in your own name. And you'll have to prepare a will and change the designations on retirement savings plans and insurance policies.

RIDING OUT THE STORMS

While facing disability, illness, or job loss is never pleasant, making certain preparations can help you survive these financial strains.

If you do become ill or disabled, the greatest costs are those that medical providers charge, including hospital, doctor, and medication bills. That's why it always pays to have health insurance, especially if you can get a reduced rate through your employer's group plan. You may also want to consider disability insurance. If you carefully research different policy options, you can get the right kind of coverage to protect yourself.

Losing a job can also be alarming. That's why you need to have an emergency fund to cover your expenses if you're between jobs. And look at the bright side: Job loss can lead you to a new career, or a better position in your current field. And since most people hold an average of ten jobs in their lifetime, you're not alone if you decide to shift career paths at some point. You may decide to take some time off to travel, spend time with your family, or pursue a hobby.

A FLASH OF SUDDEN INDEPENDENCE

If you've been married for much of your adult life, the financial independence that comes with divorce or widowhood can seem overwhelming. You'll need to be prepared for some changes, depending on your situation and the circumstances around the loss of your partner.

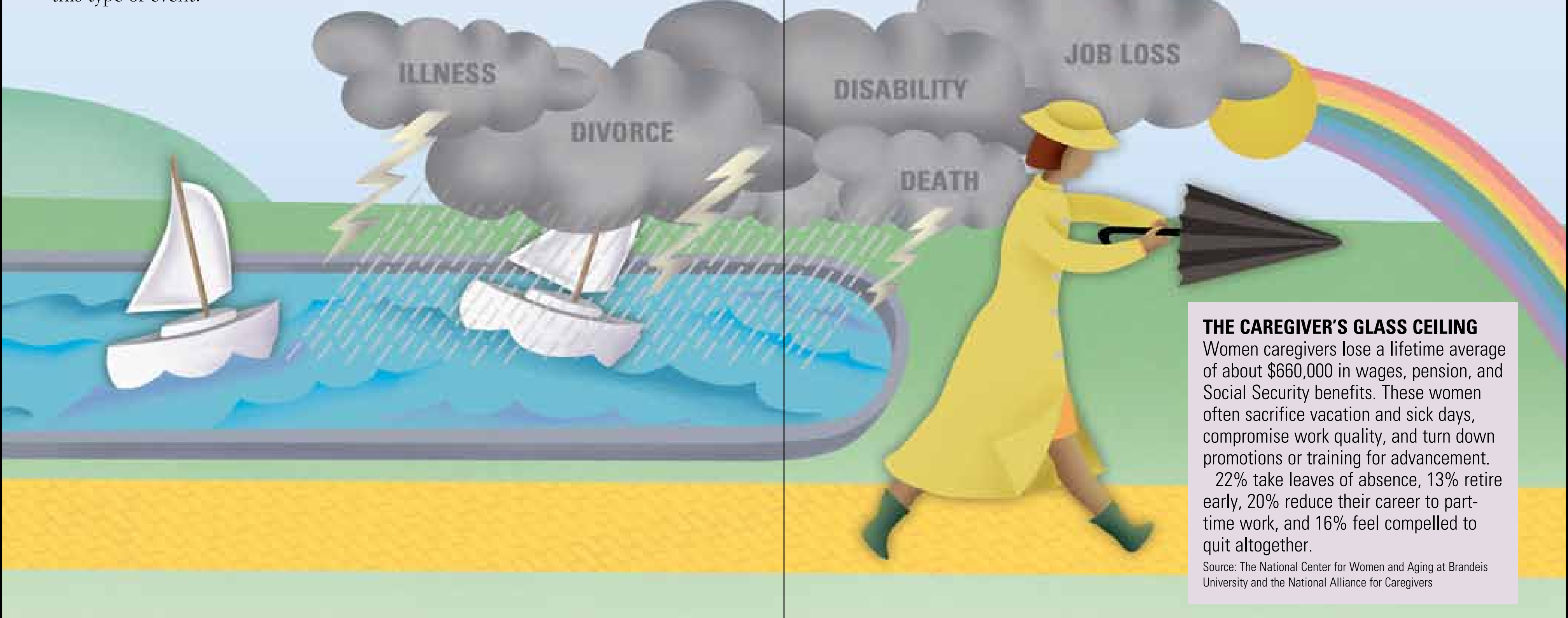
You're in an especially strong position if you're comfortable with all of the aspects of your family's finances because you played an active role in financial decisionmaking. In that case, you are prepared to make choices that will protect your future and provide for your dependents. The advice of a professional can be helpful as well.

AGING PARENTS

As you age, your parents age as well, of course. You may find them struggling with illness during their advancing years.

As their daughter, you may be responsible for their care, since 82% of women in your position wind up with this responsibility. The emotional impact and financial strain together can be exhausting. It's quite possible that your commitment may compromise your career or your family.

Grappling with illness can naturally spark concerns about your parents' deaths. Do you know how carefully your parents have planned their estate? It can be quite difficult to ask the questions that you need answered, but it might be worse to wonder about their wishes when it's too late to find out.



THE CAREGIVER'S GLASS CEILING

Women caregivers lose a lifetime average of about $660,000 in wages, pension, and Social Security benefits. These women often sacrifice vacation and sick days, compromise work quality, and turn down promotions or training for advancement.

22% take leaves of absence, 13% retire early, 20% reduce their career to part-time work, and 16% feel compelled to quit altogether.

Source: The National Center for Women and Aging at Brandeis University and the National Alliance for Caregivers

Balancing Your Financial Goals

Effective financial planning means keeping many balls in the air.

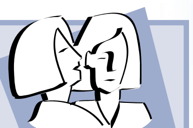
Timing plays an important role in your investment plans and goals. Chances are that you want to meet some of your goals in the immediate future. You look forward to achieving others in a few years. And you keep those that won't become reality for a long time in the back of your mind.

Timing also influences the specific investments you make to achieve particular goals. And the emphasis you put on one of your goals during a certain period of your life has a direct impact on your progress toward meeting the others.

For instance, you may be trying to save 10% of your income to divide among your various goals. But if you're making the down payment on a new home in the next few months, you'll need your cash to cover all the expenses of moving. Can you do both? Perhaps you can't. But if you have to skip meeting your savings goal for a few months, your overall plan doesn't have to suffer.

Put another way, taking timing into account means looking at what you can afford to spend today and still meet your long-term commitments. Similarly, it means asking what investment risks you should be taking for the long term without putting your short-term security in jeopardy. All this balancing is aimed at finding the place where you are both comfortable and reasonably confident of meeting your goals.

HELPFUL HINTS



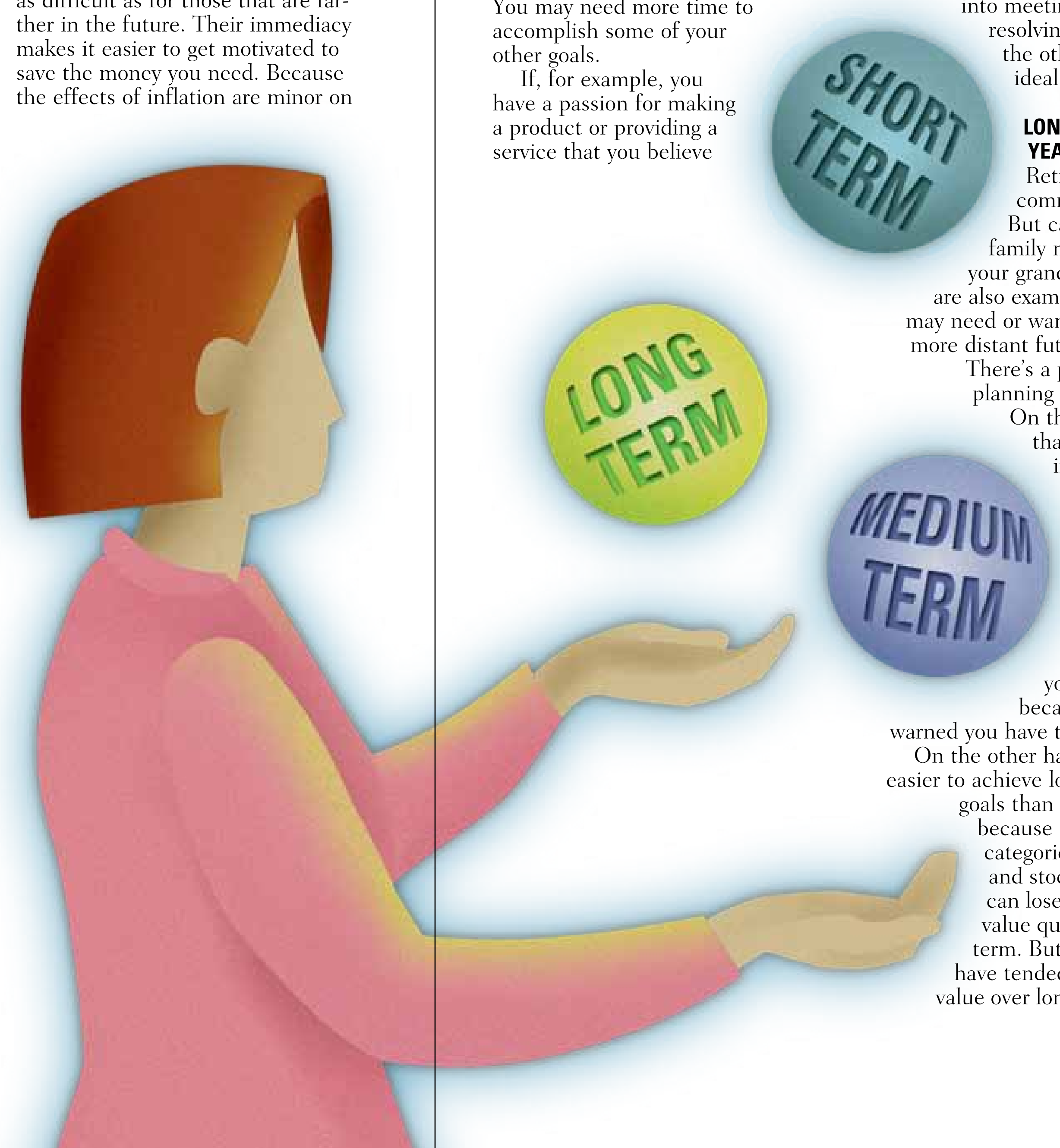
What's short term for some may be long term for others. For instance, if your twin daughters are sixteen, funding their college tuition is a short-term responsibility for you. But if your sister's daughter is five, she has a much longer span to work with.

SHORT TERM (UNDER TWO YEARS)

Your challenge in the short term is to be sure that you're meeting all your day-to-day obligations while also accumulating money for immediate goals, such as buying a car, getting married, or taking a big trip.

Planning for short-term goals isn't as difficult as for those that are farther in the future. Their immediacy makes it easier to get motivated to save the money you need. Because the effects of inflation are minor on money you're spending fairly soon, it's relatively easy to estimate the actual cost.

The complicating factor is that short-term expenses affect what you can invest for longer-term goals. You may picture yourself sitting behind the wheel of a brand-new convertible or moving from your apartment into a house. You've calculated that you can afford the payments. But you also have to ask yourself how spending the extra money now might affect your plan to expand your business or attend graduate school.



MEDIUM TERM (TWO TO TEN YEARS)

You may need more time to accomplish some of your other goals.

If, for example, you have a passion for making a product or providing a service that you believe you can do better than anyone else, you may want to turn it into a full-scale business. Before you actually open the door, you'll need to learn about potential customers, competitors, and the requirements of the market. And you need to be building as much of a financial cushion as you can to keep the business growing until it begins to make a profit.

As energizing as a medium-term goal may be, you have to deal with demands on the money you had planned to invest—perhaps to replace a car unexpectedly. But there may also be times when you choose to put all your financial energy into meeting a specific goal, resolving to catch up on the others later. It's not ideal, but it's realistic.

LONG TERM (TEN YEARS OR BEYOND)

Retirement is the most common long-term goal. But caring for an older family member or sending your grandchildren to college are also examples of things you may need or want to pay for in the more distant future.

There's a paradox in financial planning for the long term. On the one hand, goals that are 20 or 30 years in the future seem remote and even unreal. It can be hard to motivate yourself to give up some income now to provide income later, or to sacrifice things you want to do because you've been warned you have to save more.

On the other hand, it may be easier to achieve long-term financial goals than short-term ones because certain investment categories, such as stocks and stock mutual funds, can lose as well as gain value quickly in the short term. But these investments have tended to increase in value over longer periods of time.