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Build for what's ahead℠

A Plan for Change

An action guide for women who are divorced or widowed

Taking Action, on Their Own

After a divorce, women are

14 times

more likely than men to seek out financial advice.[1]

90%

of widows want to feel more confident about their personal financial matters.[2]

[1] Personal Financial Trends Survey, American Institute of CPAs, 2016.
[2] Widow's Voices: The Value of Financial Planning, Journal of Financial Service Professionals, January 2016.

Preparing for the Next Stage

Divorce or widowhood can place women in a whole new financial situation.

Research shows that some women experience a decline in overall income, wealth, and retirement security following these life events.[3] Yet many others successfully establish an independent financial security that helps them move confidently toward the future. The key is to take a series of positive steps today to secure a better tomorrow.

Focusing on a few financial fundamentals is an essential first step. Especially for women who have shared financial responsibilities with a partner in the past, it can be helpful to concentrate on establishing a firm footing before moving on to more complex planning.

Once the basics are squarely in place, they'll serve as the foundation for wealth building and ensure more flexibility in overall financial management. Your trusted financial professional can provide indispensable guidance and advice along the way.

Now let's take a closer look at five fundamental steps that can help build that foundation.

01 **Creating a workable budget**

02 **Building sufficient emergency savings**

03 **Strengthening your credit score**

04 **Investing for the future**

05 **Protecting financial security**

[3] The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security, GAO-18-111SP, Security. U.S. Government Accountability Office, October 2017. www.gao.gov

Step 1: Create a budget that works for your new situation

People who develop a plan before money problems occur are better able to avoid unexpected budget emergencies. That position of financial preparedness helps them focus more on achieving their overall goals.

The trick to creating a reliable budget is capturing as much information as possible. Start by identifying how much income is flowing in from all sources. That means counting a regular paycheck, but also any income from freelance or second jobs, as well as any interest or dividends from investments. Retirees will also need to include any pension or annuity income and Social Security benefits.

Next comes the money that has to flow out: your expenses. Make sure to distinguish between fixed, variable, and periodic expenses – even if you don't itemize within each category.

- ☐ **Fixed expenses** are bills that are the same each payment period. Examples include rent, mortgage, or auto payments, as well as subscriptions and insurance premiums.
- ☐ **Variable expenses** are bills that come up regularly, but never in exactly the same amount. Examples include utilities and groceries.
- ☐ **Periodic expenses** only crop up occasionally, and include things such as gifts, car or home repairs, and charitable donations.

Step 2: Fund an emergency savings account

Having a financial buffer in place is an important safeguard when the unexpected happens. And it's a good idea to keep this money separated from your everyday money so it doesn't get used for normal monthly expenses.

How much is enough?

A common rule of thumb is to save three to six months of income for emergencies.[4] That way you'll have the cash to cover unanticipated needs without worry.

Hint

When budgeting for variable expenses, consider three to six months of spending to calculate a realistic monthly average.[5]

Tip

Did you know that certain types of life insurance could be a source of funds? Talk to your financial professional about policies that accumulate cash value, which can be withdrawn for a financial emergency.

[4] All You Need to Know About Saving for Emergencies, Kiplinger's Personal Finance, December 2016.
[5] 3 Key Tips for Budgeting Your Money, Investopedia.com, 2016.

Step 3: Strengthen your credit score

To establish, protect, or rebuild a credit score, the first thing to do is get a copy of your credit report. Every year, consumers are entitled to a free report from each of the three major credit reporting companies, available at annualcreditreport.com.

If your credit score took a hit when your life changed, these moves can help repair it:[6]

- [ ] Catch up on any overdue bills. Payment history is the largest component of your score.
- [ ] Report any mistakes to all three credit reporting companies: TransUnion, Equifax, and Experian. You can do this right on their websites.
- [ ] Reduce your credit utilization. That's how much you owe compared to your credit limit.
- [ ] Spread charges across cards rather than using one card heavily.
- [ ] Keep older cards active and avoid applying for new cards. Lengthening the average age of your credit accounts can improve your score.

Step 4: Invest in the future

The life changes you've gone through can impact your retirement savings. How much will you need to save? The answer is a function of how much you already have, how long you have until you want to retire, the scope of other income sources, and the type of lifestyle you hope to support.

A trusted, experienced advisor can help you figure out if you need to boost your contributions and where to invest them. Among the moves you can discuss are:

- [ ] Taking advantage of your employer's retirement plan.
- [ ] If you already participate in a plan at work, make sure you are contributing enough to receive any "matching" contribution your employer may offer.
- [ ] If you don't have access to a plan at work, consider starting your own individual retirement account, or IRA, in which your contributions grow tax free.

Women and credit

48% of women say they were able to improve their credit score after divorce.[7]

[6] Repairing Your Credit Score, Kiplinger.com, May 2016; How More Americans Are Getting a Perfect Credit Score, Bloomberg.com, August 2017.

[7] When Divorce Does Damage to Your Credit, Experian, 2016.

How much annual income it takes to retire:

55% to 80%

of your pre-tax annual income before retirement

This is the amount most people will need to maintain their current lifestyle in retirement. Why the drop? Retirees are no longer contributing to retirement plans, and they typically spend less than people who are still working.[8]

Women's typical retirement age and longevity:

62

Average age when women retire[9]

85

Average life expectancy for women who reach age 65[10]

1 of every 2

women in their 50s today will reach age 90[11]

[8] Why Do You Need Health Insurance? U.S. News & World Report, November 2016.
[9] Social Security Administration, May 2017.
[10] Centers for Disease Control, 2017.
[11] Society of Actuaries, 2016.

Step 5: Protect financial security with the right insurance

When life changes significantly, so do insurance needs. These four types of insurance can provide critical coverage:

- **Life insurance –** To protect anyone who relies on you for financial support, or to provide a tax-advantaged asset that builds cash value over time
- **Health insurance –** Because an inability to pay high medical bills is one of the most common reasons people file for personal bankruptcy[12]
- **Long-term disability –** To replace your income if you become unable to work due to illness or injury
- **Long-term care –** So you can get the care you choose if you can no longer take care of yourself (crucial coverage if you're at least 50 years old)

Talk with a financial professional to figure out which kinds of policies and how much coverage make sense for you and your family.

Did you know?

$97,455

is the median cost of one year of nursing home care for a private room.[13]

1 in 4

is the chance that a working adult will become disabled before reaching retirement age.[14]

Ready for a plan?

Your financial professional can help you successfully work through the priorities outlined in this booklet. As you transition into your new life, count on your advisor to help you create a more comfortable and confident financial future.

[12] Why Do You Need Health Insurance? U.S. News & World Report, November 2016.
[13] Genworth Cost of Care Survey, 2017.
[14] Social Security Administration, 2017.

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