Economic and Market Insights

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Women and Finances: Empowering Your Financial Independence

Research has shown that women worry more than men about their financial security. Nearly a third of women polled say they worry about finances all or most of the time, and almost half of women reported that they "sometimes" or "often" fear losing all their money and becoming homeless. Those are staggering percentages. Part of that is caused by a fear of being overly dependent on others. This anxiety over finances is common enough to be labeled the "bag lady syndrome." The stress can place strain on a woman's relationships, affect her career, and even create the very situation she fears, no matter how money-savvy she really is.

Financial freedom doesn't happen overnight – nor does it come without obstacles – but the commitment to become financially independent can. In the second of her three-part series on Women and Finances, Kim Bridges talks about the importance of maintaining financial independence…

Q. Kim, the idea of making decisions on work/family balance and the impact on financial independence would seem to be a touchy subject. Can you give an overview of the situation?

First, let me start out by saying that most people are looking for a healthy work/family balance. It's natural and important, and companies that make efforts to improve work/life balance for their employees will have a better chance of hiring and retaining top talent. However, for the most part the workplace hasn't caught up with the needs of families, leaving families to make some tough choices. When these choices involve stepping out of the workforce, there can be financial implications that can have long-lasting effects.

Second, this is not a gender issue; it is a role issue. In the now-dated economic model of the household, after marriage and the arrival of children, women traditionally left the workforce and their husbands became the primary breadwinners. That is not the case anymore. Women are advancing in education, choosing careers, marrying later, postponing motherhood, and remaining in the workforce after their children are born. There is no longer a partner at home filling the role of full-time parent and chief cook and bottle washer. And while men have made huge increases in their time committed to parenting and household chores, the lion's share of these tasks still falls upon mothers (or at least they feel the weight of responsibility more). This leaves women more often than men balancing the pressures of work and family responsibilities, and facing the decision of whether or not to take time out of the workforce.

Q. How do women lose their financial independence?

The greatest asset possessed by anyone in their working years (excluding those who are independently wealthy and do not need to work) is their ability to earn a living. We increase our earning power by gaining education and experience, by negotiating our salary and benefits, and by choosing career trajectories that lead to greater responsibility and greater compensation. Women often sabotage their financial independence by making decisions that in the short run provide relief from the constant pressures of work/family life, but in the long run can cause permanent declines in their earning ability. These decisions might include taking lower-paying jobs that provide more flexibility or taking time out of the workforce altogether. To compound the problem, the decision to slow down or leave the workforce often occurs at the very time when women are rapidly advancing in their earnings and career trajectories. The impact of these decisions is often not evident until years later when they try to re-enter the workforce or go through a divorce. In an effort to get the best possible outcome for their family in the short term, they run the risk of having the worst possible outcome in the long term.

Q. What should women be considering when weighing the decision to stay in or leave the workforce?

There is a gross misunderstanding of the cost of time taken out of the workforce – and this applies to men as well as women. Most people take a back-of-the napkin approach to computing the cost of taking time out: Current salary minus taxes minus childcare minus professional clothing and transportation expenses minus the cost of eating out and paying someone to clean the house equals I'm working for nothing anyway and might as well stay at home. What they fail to compute is the accrual of retirement benefits (including Social Security), job tenure, opportunities for promotion, and the permanently higher earnings trajectory achieved by staying connected to the workforce. They also fail to calculate potential costs of depreciation of job skills, loss of professional networks, and a gap in the résumé when it comes time to re-enter the job force – the price of which often discourages women from ever re-entering.

Sheryl Sandberg writes in her book *Lean In* that only 40 percent of professional women who leave the workforce return to full-time jobs. In other words, the true costs of taking time out of the workforce include not only the foregone wages during the absence but also all the additional earnings and retirement benefits they would have had for the rest of their lives had they stayed connected.

Q. What can women do about it?

Here are a few tips I've shared with clients over the years.

- **Be committed and engaged**
  - You need to commit to becoming financially independent. Be aware of and responsible for the decisions you make with regard to creating, building, and defending your worth. Take steps to build your financial independence. Even small steps like budgeting, cutting back on spending, or boosting the amount you save each month can help. Don't wait for a spouse or partner to take the lead, and don't rely on someone else for your financial security.
- **Plan for the unexpected**
  - Two-thirds of all women between ages 40–70 have already dealt with a major financial life crisis: a divorce, the death of a spouse, a job loss or a serious illness. Very few people reach "happily ever after" without major setbacks along the way. Plan for the setbacks.
- **Cultivate connections**
  - If you do choose to leave the workforce, keep one foot in (e.g., part-time work, involvement in the profession and professional networks, staying abreast of industry knowledge and trends). Nurturing relationships with family, friends, and professional networks can help ensure continuous connections and avoid gaps in your résumé.
- **Ask for help**
  - Sometimes you won't be sure what to do on your own, and that's normal. Having support from others, including professionals, can make it easier to move forward.

About Kim Bridges, PhD, CFP®, CPWA®, CDFA®
Kim Bridges is a senior financial planner for The Commerce Trust Company and a member of the financial advisory services team — a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. In her previous financial planning roles, she specialized in providing customized financial planning solutions for high net worth individuals and families as part of an overall personal wealth management strategy. Kim has spoken extensively on issues related to women and finance. Kim received a Bachelor of Science degree in human ecology and Master of Science degree in family studies and human services, with an emphasis in family financial planning, from Kansas State University. She also earned a doctorate in personal financial planning from Texas Tech University. Additionally, Kim holds the CERTIFIED FINANCIAL PLANNER®, Certified Private Wealth Advisor®, and Certified Divorce Financial Analyst® designations.

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