EPISODE 1332

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1332, Ask Farnoosh. How can women get ready for retirement?

[INTRO]

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FT: Welcome to Ask Farnoosh Friday, everybody, March 18th, 2022. I'm your host, Farnoosh Torabi. If you've been listening to our episodes every Friday this month, you know it is all about women and money. In partnership with our sponsor this month, Prudential, we are dedicating episodes to women's financial independence. Today's topic is women and retirement and feeling more prepared for our future. We've got your related questions, including what would it take to feel more confident about your personal retirement savings. We're going to answer this today, as well as what's a good number to shoot for when you're trying to save for retirement, and what are all the ways to support your savings needs, how to bank on a Health Savings Account to supplement your retirement, what to do with a really, really old 401(k) that you haven't touched in maybe a decade or longer.

To help us navigate this topic and provide some professional advice is Lucy Chamberlain. She's a financial planner at Prudential Financial. By the way, we have a lot more advice for you at prudential.com/somoney. But don't go there yet. Stick with us here. Here's my conversation with Lucy Chamberlain on how women can retire with confidence.

[INTERVIEW]

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FT: Lucy Chamberlain, welcome to So Money. Very excited to talk about retirement. One of the top questions on this show is about retirement. Everybody wants to know. How much is enough? When do I start? How do I start? So really grateful to have you on the show to help us navigate these questions.

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LC: Thank you so much, Farnoosh, for having me. I'm so excited to be here and discuss retirement and it being women's month and everything to do with us women planning for retirement.

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FT: Yes, we are living longer. We have all the reasons to make this a priority. Let me learn a little bit more about you, Lucy. Tell me a little bit about what drew you to financial planning. Everyone's got a story. I want to know yours.

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LC: Thank you so much. Yes. So I actually started my career in England, and then I moved back to America to be with my husband. I always thought I was going to be on the trajectory for law school and sort of decided to intern and go down that path and realized it wasn't for me. While I did do some time in England where I started my career, I realized I think everything I was trying to get from law school, problem solving, working with people, being able to make a difference in someone's life I found that I achieved when I fell into finance and started working with my client base.

I think everyone's relationship to money stems from their childhood. I had an incredible childhood and came from an incredible family. But then my mother became a single mother. So learning your path through the eyes of a single mother, where everything is on a budget, everything is paycheck to paycheck, everything is about – Well, in our family, everything was about counting the pennies, and retirement wasn't really something that was even talked about because it was all about the week to week, the day to day.

I think many Americans experienced that of just planning for today and not thinking about, oh, my goodness, this day that is looming called retirement day, and what does that look like. What does that mean for you, and understanding that your plan might not match your neighbor's plan or your sister's plan or anyone else? I think understanding what that plan for you looks like is so important. I think in our role as financial advisors and professionals is the education to provide people, the knowledge to make the best decisions for themselves.

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FT: Yes, you're absolutely right. It's a very personal journey, retirement. It used to be very cookie cutter. It’s like you worked until you were 60-ish, and then you retired from that one job that you had your entire life, and you probably got a pension. Fast forward to today, pensions have gone the way of the dinosaur, and our careers are not so linear. Also the ways that we're saving for retirement is not just one way, so looking forward to unpacking all of this with you.

It's Women's History Month, and we're dedicating this episode to women. But really, the advice is for everybody. All of this advice is applicable to everybody, wherever you are in your journey, whoever you are, however you identify, to take these learnings and apply them to your financial life. But the reality is, Lucy, that women are not as prepared for retirement, and Prudential did a study recently and found that in terms of preparedness, men say they're much more likely to be in a good place for that day. Why do you think that is?

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LC: I think that really boils down to, again, lack of education. I think the more traditional roles with older generations have gotten in the way of women's mindset, which is absolutely insane and incorrect because as women, we’re actually inheriting more and more of America's wealth today. So I think you're right. I think both men and women are understanding more and more that they need to save a personal nest egg to meet those retirement goals. I think it also comes down to generational. I think our younger generations understand that nest, that personal nest egg.

But I think women are so used to relying on their husbands or their fathers or that male figure and not realizing that maybe statistically one day, you are going to be the surviving spouse, and you need to understand the plan that has been set up for you. That if you do live another 10, 20 years past your husband, what does that retirement then look like for you? I mean, I just don't think we have the education out there, or people aren't seeking the education enough and, unfortunately, using social media, church members to – Not that there's anything wrong with that, but understanding the true facts and vehicles and assets that are out there that are going to help really build a sound retirement for you.

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FT: To add to your point, there are realities in a woman's life that are different sometimes than a man in that we, on average, make less. Also, if you look at what's happened over the last couple of years with the pandemic, more women have been outed of the workforce, sometimes unwillingly. But it was just the reality. They could not manage both the home life and the work life. So when we think about how much – And we're going to get to some listener questions soon, but I wanted to address this enoughness right off the bat. When you're advising clients, Lucy, and they're like, “Okay, so how much do I need? What's enough for retirement,” obviously we have to factor in things like the future cost of living. But what else? How else do we get to that number, which is obviously different for everybody?

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LC: Yeah, and it's absolutely true. It is very different to everyone. What's so funny is the amount of times I hear a million dollars, I think that is just a magical number that people more and more choose that if they have a million dollars, that's it. They’re set. But I don't think they really understand what the basic retirement expenses are and how much that actually then plays into effect over a 20-year period, especially with women living longer. Understanding those numbers, understanding your basic expenses, your needs, your luxuries, your incomings, your outgoings, I think there's not enough communication with spouses.

I mean, we've done a study before that if you calculate five dollars a meal per person per day, and you assume three meals a day, that the average couple in retirement is going to spend $913 a month, which over a 20-year period equates to close to 220,000. 220,000.

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FT: Wow. So 25% of that million just going towards food.

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LC: Just to food, and that's – The kicker is, is what most people **[inaudible 00:09:28]** says, “Well, five dollars per meal, where can you get a meal for five dollars?” So that number isn't even realistic, and I don't think we truly – A lot of times, when I'm dealing with my clients, they don't understand their true income and their true expenses. So they'll say, “I earn 6,000 a month, and my expenses are 3,000.” I'm like, “Okay. Well, great. Then you must have 3,000 discretionary,” and they're like, “Oh, no, no, no, no. I'm broke.” It’s like, “Well, how? Why?”

I don't think people pay enough attention to details, and I think it's the details that really help provide this sound financial planning for people. I just don't think people understand enough the transportation costs, the healthcare costs, and that's not even taking into consideration the big words that we're hearing today is inflation and making sure that your money is the same dollars in the future that it is today. We have this 7.4% inflation number that's been thrown out there, but that's not the actual inflation caught rise in health care costs and understanding what that –

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FT: That’s just the average, right?

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LC: Right. I think people don't look at the details enough.

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FT: Well, we're going to get to some very specific questions from the audience, very specific. Before that, I just wanted to table set a little bit more with you and tackle some of the more broader advice around retirement. So where do people start usually? I would say, obviously, if you have a 401(k) or a 403(b) at work. You still think that's the best place to start.

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LC: Well, I think a lot of people know they have 401(k)s at work, but the amount of clients that I actually **[inaudible 00:11:27]** that say they're not taking advantage of a 401(k) plan, which is crazy because, literally, if you have a company match, you are leaving free money on the table. I mean, free money, and people just don't get that. So, yes, the one place to start is learning about your company 401(k) because 9 times out of 10 there is a match, and that is free money that you're just leaving on the table behind. So if nothing else, sign up for your company's 401(k) plan. Make sure you're at least doing the match to get the match from your employer.

But I think there are many different places that you can start off, understanding your emergency fund, having, if you're younger, three to six months of monthly expenses and emergency funds. If you're closer to retirement, more closer to nine months of an emergency fund. Then outside of that, don't let those dollars sit in savings account that aren't earning any interest because there's the power of long-term investing. If you're younger, you have more and more market cycles to go through to benefit from market opportunity, so not being afraid. I think as women, we're put in this box to be more conservative, to be more emotional, when it's like no. If you're young, it doesn't matter if you're female. Take on as much risk as you feel comfortable for the vehicle you're planning with, and take on that risk. Make sure your dollars are keeping up with the pace of inflation. You're not losing that purchasing power.

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FT: Do you have advice for how women can get more comfortable with the risk? It's easy to say that, but it's hard to practice. When we're talking about real dollars, especially again if you're a single mom or if you're the female breadwinner, I think there's a lot of pressure to make sure that your money is working. It's hard to watch. One day, you're up. One day, you're down. So what's the advice there for women who want to be able to harness that fear a little bit more?

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LC: Yeah. I can't say more and more than to work with a financial professional. Interview people. You have the right to pick someone, just as much as they have the right to pick you. Interview several people. Make sure that they are talking directly to you. That way, they can guide you through the emotions because right investing is emotional. I'm sure everyone's seen their accounts have been fluctuating over the past couple of weeks, and that's scary. It's emotional. It's emotional, the reason why the markets are fluctuating. So if you're working with someone, our job is to take out the emotion, to help the management, to not look at it on a day-to-day basis, to understand where you are in your retirement accumulation and journey because, of course, if you have time, if you have several market cycles, write those market cycles.

A lot of people that talk about 2008 and how they lost everything in 2008, well, yes. But you really realize that loss by being emotional and taking all your money out, instead of allowing it to rebound and capture an incredible high for the past 14, 15 years. Try not to be as reactive and work with someone that can give you the management and an understanding of why not to be emotional when it comes to your investments and your dollar. Always try and do a little bit more.

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FT: Yeah. I always say if a stock is or a mutual fund or an ETF or if your investments are always on the up and up, something's not right. Something's not right. Volatility is healthy and normal. It's just par for the course. Let's go to the mailbag now, Lucy. Let's answer some of our listener questions. Again, these are very specific, but I think will provide some well roundedness to our conversation. The first is – These are all acronyms and pseudonyms on Instagram, so I don't know what the real names are. But MDIX asked, “How do I wisely invest my Health Savings Account, HAS? There are so many options that my company offers.”

Just to take a take a minute here to explain that HSAs, while in the short term, they can be used as, obviously, a vehicle to save on health expenses, out of pocket health expenses, there's that tax benefit. You put money in, and you can use that as sort of a piggy bank for your eyeglasses and prescriptions and all that stuff. But there's a long-term benefit to this too, where you can invest those dollars, and a lot of people are banking on that as one area of saving towards retirement. What's your recommendation for our friend here who wants to know how to pick those investments?

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LC: Yeah. So HSAs are great tools that make saving for future health-related expenses less painful. The investments inside of your HSA should be thought of like any of your long-term investments, like your retirement accounts. Again, depending on when you need the money, when you're planning to access the money is the sort of mentality that you should take on the investments inside of your HSA. Of course, if you're closer to needing the money, you don't need to be very – You don't want to be aggressive with your investment choices. If you have long term before you're going to need the money, take on the risk. Allow to benefit from the beauty of growth.

You're right. The ebbs and flows, the ups and downs is what makes the markets grow and your accounts grow. Understand what tools your plans offer. Some of them offer automatic rebalancing. That's a great way to keep your investments on track with your risk tolerance.

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FT: Which is also available to 401(k) participants. It's not exclusive to HSAs, right?

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LC: Correct, correct. Great. And it makes it a little bit easier to manage. Some of the great options if the plan offers it are target funds. Target funds are assessed to date, and you sort of pick the date that mirrors your retirement or when you're going to need the money, and they sort of do the management for you. They're much more aggressive in the beginning. As you near that target date, they sort of become more conservative. That's a more passive way to invest but very useful and simple. If you don't know where to invest, you don't know what to look at, a target fund is a great way to get diversity and sort of have someone else to do the hard work for you. But again, speak to someone, education, advice, whether it's through the plans, HSA benefits, or if it's through someone personally that you can just get some educational advice from.

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FT: Thank you. Okay, Nancy Rilla. I love this question because it brings in, again, another way to prepare yourself for retirement. We talk a lot about 401(k)s. We talk a lot about investing in the market. But long-term care insurance is also a way to set yourself up for success in retirement. It's something that most people, if they opt into it in their 50s, sometimes in their 60s. Our friend also wants to retire early here. She wants to know, “Is long-term care insurance worth it? I'm hoping to retire by 55.”

So first, let's maybe touch on long-term care, your thoughts on that. Then for our friend here who wants to retire early, does it even matter? I mean, ultimately, this is something that you probably won't need to access until later in life. So it doesn't really matter when you want to retire so much as like what’s your health profile.

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LC: Correct. Is long-term care insurance worth? It's such a loaded question.

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FT: Well, what is it, first of all? Let's just define it.

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LC: Yeah. So long-term care insurance is insurance that can help provide tax-free dollars, if set up correctly. To provide for the cost of care, if you cannot complete two of your six daily living activities, and those daily living activities are considered eating, bathing, toileting, transferring, continence, and dressing without assistance. A cognitive impairment, so something like Alzheimer's or dementia and/or a terminal illness. So there are several different ways you can attack long-term care. You can go more of the traditional long-term care plan that's going to give you more options for sort of lifetime benefits. So if you enter one of these sort of stages of chronic or terminal care or cognitive impairment, then you can utilize the benefits of a long-term care plan, usually for however long you need it.

What's great in the market today is where before, if you didn't use it, you look lost it. Now, even the traditional long-term care plans are set up with some style of a death benefit. So it's not something that you're paying into, paying into. Then if you don't use it, you lose it. So I definitely think long-term care has come back around and the –

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FT: Well, that's good.

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LC: Yes, and the advantages. Another way to attack long-term care is the hybrid life insurance policies. Now, there are many, many life insurance policies that offer riders, whereby you can accelerate the death benefit to provide for the costs of care. It's usually much cheaper than the traditional long-term care, but it is based more on health and age because, of course, first and foremost, you're underwriting for life insurance. Their traditional long-term care route has a little less restrictions of the health and age. It's more sort of several questions that you have to go through.

But there are definitely different ways to attack it. Is it worth it? I think it's beyond worth it, especially for women. As women, statistically, we're outliving men. But also our bodies are so much more durable, which means that the likelihood for us to remain in some type of care or need for care is going to be longer. So if you and your spouse have a finite amount of dollars, and you're looking at each other on where should we invest this long-term care, women are the key because 9 times out of 10, you look at our nursing homes, and that largest population are women. We're outliving men. We're living through so much more ailments. So the need for us to have care is a lot longer. A long-term care event is one of the largest derailers to people's retirement. So if you're young, you're healthy, it's, yes, absolutely get long-term care.

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FT: At what age you think – Well, obviously, the earlier, the cheaper it might be, but then you're also paying it for a lot longer in theory.

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LC: In theory, yes. I can't stress it enough to get long-term care as soon as you can. The problem is a lot of people wait for a catalyst event to happen. So either something personal inside of their own household or something that they reflect in their immediate family. Maybe having now more and more we're that sandwich generation. We're taking care of our ailing parents, as well as taking care of our more adult children. So, yes, if you can attack it longer. Yes. I mean, earlier. Yes, you might be paying for it longer, but the cost is going to be so much cheaper. I can't –

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FT: It kind of evens out. Yeah.

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LC: Yeah, I can't stress it enough.

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FT: All right. This is a good question. A lot of folks in the audience are self-employed, and they own businesses. Sometimes, they are solopreneurs. A lot of times, they're a business of one. Is there a retirement account you recommend for those individuals? I had, and I still, have a SEP IRA, and I know there's also the solo 401(k). What are the differences?

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LC: The differences come down to how much money you're trying to put in and also how much income you show. Because if you, let's say, make 80,000 in a business, you're managing to write off about 60,000, well, you can only put about 4,000 in a SEP IRA, whereas in a traditional personal IRA you can invest 6,500. So again, it comes down to how much are you trying to put into the account versus also how much is your adjusted gross income. A financial professional can help you with those details, as well as your accountant can offer you information on your adjusted gross income.

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FT: Perfect. Nice and neat answer there. I like that. Then lastly, Nerd Dane, this is also a very popular question. She's speaking for the crowd here. “Should I move 401(k) money from an old job that was from 22 years ago?”

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LC: I think with these, I mean, of course, my answer is yes. But I think with these, you need to understand what are the benefits of you leaving it where it is. Okay, it's low cost, and it's a known entity. But outside of that, your limited investment options, there's no more match, and there's no more specific advice. So what are you getting by leaving it there? So then, if you're not getting free money, why have unlimited investment options?

Again, look at something that's going to give you more, provide you more, and have someone that you can help manage it, and answer some of the questions because it's not what you earn. It's what you keep. So that keeping number, that savings number is so important because that's what you're then having to live off for 20, 30 years in retirement. So look at what the benefit is for leaving there. Usually, it's not much. It's usually just the cost and unknown entity, and look at your options outside.

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FT: Right. It's also – If it's out of sight, it's out of mind, why not put that money to more work for you? Yeah, there's also the benefit of streamlining and having everything under one roof. The organization alone is very helpful. I find that very helpful in my own life, just to have everything under – Or not everything under one roof but to the extent that I can do it.

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LC: Yeah. No, absolutely. Keeping everything under one roof doesn't mean one vehicle. But it means that you're working with someone that is going to help look at your entire portfolio, and give you advice on your entire portfolio, and get to know you. Get to know your goals. A lot of people do. They leave accounts at so many different institutions that then when they look up to retire, they're forgetting about accounts they already have. The amount of clients that I meet and deal with it, I mean, it was only the day I get an email. Oh, I found another account for you. It just happens all the times. It does. So consolidation is important, making your money work better for you, having more management and also the conversation of risk management. Understanding the risks that you're putting these accounts through as you're nearing that retirement, and what type of guardrails can be utilized.

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FT: Right. Because the auto rebalancing probably got shut off on that account when you left it there. Now, you're 68, and you're like 95% in stocks, and you had no idea. So that's a great point. Thank you for bringing that up, Lucy. Lucy Chamberlain, thank you so much. Really enjoyed having this conversation with you. So much great advice. I really appreciate this partnership.

Next Friday, we'll be talking about all things investing. So obviously retirement is one area of our investment portfolio, but there's a lot of other ways to invest and looking forward to that conversation. Thank you.

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LC: Thank you so much for having me. It's been such a pleasure.

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