KBA The Financial Planning Company

The Financial Future of Women

Gender equality has, for years now, been a hot topic. International Women's Day is on the 8th of March recognising women all over the world and being the main beacon shining a light on Women's rights each year. It's a tragedy that we sit here in 2023, 95 years after women in the UK were given the right to vote in the Representation of the People Act 1928 and the world is still far from having equal opportunities, not just for women but for every human being living on it. And by that, I mean regardless of gender, race, sexuality, disabilities (to name a few) and if we take into consideration the disparity between poorer countries and richer countries, we have a long way to go yet.

From a financial perspective, and not just in reference to pay equality, there are key differences for women than their male counterparts and key things to think about. Some fall into the choices they make and want to be able to make, others in their behaviours. It is vital to understand what these events, behaviours and choices are so that women can plan and prepare their futures accordingly.

With nearly 50% of marriages ending in divorce, relying on a partner for your financial future must be taken with a pinch of salt, regardless of whose career is taking the step back and regardless of whether it is a same sex marriage or not. A recent study by Scottish Widows showed that 71% of divorced people didn't discuss the pension, you'll see below why this is madness (and no this isn't a man-bashing session, its financial fairness in both directions).

You must take control of your own financial future.

As women, we live longer and earn less, it will take 202 years at the current rate to close the gender gap. As of 2020, the average pay gap between men and women was 18.4%. Not only that but as we live longer, we have a longer period of ill health than men and more cases of dementia, meaning we need our funds for later life.

Girls perform better right through school and university but then go into lower paid positions, why?

Women are still the main care givers, which is normally by choice, but it is still a fact. We dedicate time to raising families and looking after elderly relatives and with people having children later, we may find that both types of care are required at the same time.

The impacts on our financial futures:

1. The Motherhood Impact

The divergence between men's and women's salaries start to expand during childbearing age. Working mothers earn 30% less than their male counterparts up to 20 years after the child has been born. Even before the child is born, women earn c.10% less and that gap then widens. If you earn less, that's less in your pension pots overall as well as less disposable income to do something with, combined with the reduction being in the early years, which means that compound interest has less to work its magic on over the term to your retirement. Meanwhile, your partners pension is being funded both by them and their employer and tax relief and compound returns to a higher level.

2. The Childcare Impact

The UK is the third most expensive country in the world for childcare, behind New Zealand and Switzerland. Many parents cannot afford to pay the childcare costs and go back to work full time and therefore they either give up work or go part time to save on childcare costs. The free hours system in the UK is changing over the coming years but this has been the situation in recent years.

But it is women making the decision to finish. In April to June 2021, only 50.4% of working families had both parents employed full-time; 44.1% where a man was employed full-time and their partner part-time; 2.6% where both partners were employed part-time, and 3.0% where a woman worked full-time and their partner part-time. Only 3% had a women working full time and their partner part time. This has a severe impact on the women's pension provision and means they are unlikely to catch up.

3. The Good Daughter Impact.

Just when your children are that little bit older and you are thinking of going back to work more hours, (hopefully your relationship is still intact and you haven't got that stress both emotionally and financially to deal with), elderly relatives come into the equation. Around 9% of people are providing unpaid care in the UK as informal carers. However, Carers UK research in 2022 estimates the number of unpaid carers could be as high as 10.6 million (Carers UK, Carers Week 2022 research report).

Again, this is not saying that women don't want to care for children or their relatives, but that they need to understand the impact on their financial futures of doing so, couple that with a divorce later in life (where 71% haven't talked pensions) or a partner that hasn't prepared as they should have and you weren't aware of the situation (gambling, spending too much, not providing life or illness cover) and you could be leaving yourself in a sticky situation in what should be the Autumn of your life by relying on the person you trusted and not getting your ducks in a row.

All of the above means that women earn less, there is less disposable income to utilise for their financial futures, their pension funds are less and the pay gap is getting worse for if and when you want to return to work. Great.

So that's the life stages that can have an impact but what else impacts a Women's Financial Future?

Women make better investors but are fearful

Multiple studies have shown that on average, women's investment returns outpace men by between 0.4%pa and 1.8% over a 3 year period. Interestingly though, women aren't as confident to invest as men. What this has resulted in is that women will look for quality over quantity, will do their research and take financial advice and will leave their investments alone once they have decided what they are doing.

There is a well-known saying that it is 'time in the market' over 'timing the market' that is key. Buy and hold appears to be what women do well (probably because they are far too busy doing all the other things that life is throwing at them!!!!). A study by Vanguard in 2020 revealed that 50% of women were less likely than men to trade actively. Buy and hold ladies, similar to clothes, shoes and bags, obviously.

Despite all of this, Women are expected to control 60% of the world's wealth by 2025. We therefore need to ensure this money is working as hard as possible and that these women have the financial futures that they deserve. We could close some of the gap by investing more of this wealth however women are natural savers but in cash.

This demographic is starting to change as younger women are more likely to invest but will this trend continue as women get older? Do women have a distrust of providers due to jargon and lack of communication? Is the financial industry targeted towards women given that 60% of the wealth will be in their hands in 2 years? Probably not.

Time off, part time work and broken-down relationships mean that women end up with less, when they have been spending their time raising the children, supporting their partners careers, and looking after elderly parents (normally parents in law as well). When they do accumulate wealth, it is normally later and hasn't got the time to work for them meaning overall we are missing out.

If you are a man reading this and you are in the situation where you have been able to expand your career, move up the ladder and you have ladies in your life that you care about and that have taken on the care duties of the family and a step back or might do in the future, consider what you also should be doing to ensure you look after your family and don't leave them in a less than desirable situation should the worst happen, either from illness, death, divorce or anything else.

What can you do?

1. If you are intending to have the time off to look after family members or work part time, make sure that when you are younger and working full time that you maximise your savings and pensions as much as possible in the early years. Building up your pension early means that compound returns have a longer term within which to potentially provide growth

2. Review your pensions/investments and ensure they are invested in the right way for you and your future so you get the most out of them.
3. Ensure you have a cashflow forecast done by a Financial Planner and include disaster simulations, what if one if us dies? What if we get divorced?
4. Don’t leave it to chance, fate, the government, a partner or anyone else. Take control of your financial future.
5. If you have younger female daughters and family members, can you help them start their pension planning as a child as if we have only got this far in 95 years, I cannot see a radical change in the next 20. You can have pensions as a minor and contribute £2,880pa, even for children and non-earners which the government will top up with £720pa and again the long-term effect of compound returns may help. If your partner is not working, can you pay into her pension to help keep it on track?
6. Fight your corner on your pay, if you have the same skills and experience as your male counterparts, you should be on the same pay.
7. Can you flex your hours so that you do longer days and don’t lose as many when you go part time?
8. Make sure you claim the benefits you are entitled to, both for childcare and if you are caring for elderly relatives and then invest spare cash wisely.
9. If the worst happens and your relationship ends, make sure you get a good divorce lawyer and a fair outcome for yours and the children’s financial future. This isn’t about being mean or revenge, it’s about what’s fair and building back the loss in your financial assets for the time taken to raise your family and please include the pensions, you will need it for your later life, you know, the one you dreamed about having that’s now all changed?
10. Make sure the earning partner has life cover and sickness benefits that cover all of you because if you lose their income to the family and you have relatives to care for, that’s a tough situation to be in. Similarly, if your partner then becomes sick and the income stops, you’ve an extra person to care for and no income coming in and if you are not well or were to pass away, who is going to do the childcare. Don’t be tight when you are protecting yourselves as huge assets to the family, it may be the best investment you ever made but one you never wanted to pay out.

For more guidance with any of your financial planning needs, visit our website or email contactme@kbafinancial.com for an initial meeting at our expense and let’s get that financial future sorted.

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HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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