THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

WISER Special Report

Financial Decisions for Caregivers

In over 20 million households across the country, an adult is providing full or part-time care to an older family member or friend. In millions more, a woman is home caring for children. Women are the primary caregivers in our society, and it is important for women to understand that caregiving can have serious financial consequences.

Some of the financial consequences of caregiving are obvious. Women often will decide to work part-time, stop working, decline a promotion requiring longer hours or pass up a training opportunity requiring travel. There are also more subtle consequences. Women making compromises at work often forfeit pay and benefits, miss out on opportunities for compounded returns on 401(k) matching contributions, and experience reduced savings and investments. They may even experience an inability to pay for home improvements that could increase the resale value of a residence. One study found that on average caregivers lose $659,130 over a lifetime in reduced salary and benefits! If you are a family caregiver, take these steps to a more secure financial future.

Step 1: Create a Household Budget

If you are a family caregiver, living within a household budget is a must. A budget will enable you to live in a way that protects you from financial crisis. A budget will also help you make realistic plans for how you will deal with reduced pay and benefits if you decide to cut back on work hours or change jobs.

If you are a caregiver to parents or another adult, you may find yourself paying expenses without adding it all up or considering the long-term consequences. Small expenses add up quickly and could be preventing you from saving enough for your own retirement. If there is a shortfall, think about ways to reduce spending. WISER's Special Report "5 Questions to Ask Your Mother or Grandmother" (www.wiserwomen. org) details various ways an older person might get assistance with medical costs, stretch their income with an annuity or tap into their home equity for additional income. Finally, if it's possible, ask other family members to contribute to the monthly budget of the person you provide care for. Or, ask family members to pay you for your caregiving time, as an independent contractor. Take that pay and invest it in an IRA or create a Simplified Employee Pension Plan for yourself. WISER's website has more information on creating a SEP plan.

Step 2: Plan Carefully Before Leaving a Job or Working Part-Time

You know the upsides of providing family caregiving, but it is also important to understand and plan for the financial and retirement implications. If you are in a crisis situation think carefully about leaving a job or reducing your hours. Take the time to check into what will happen to your benefits as a result.

Leaving your job will mean losing compensation and benefits; it may also mean losing skills and contacts. If you are leaving behind a pension plan, you will lose years of service toward vesting or increased benefits that build up while you work. If you are in a traditional pension plan, you usually become vested in five years. Generally, the longer you stay the more valuable the benefit will be. In a defined contribution retirement plan, there is a similar requirement— you must stay a certain number of years to receive the benefits provided by your employer—often between three and six years.

If at all possible, try to stay at your job until you are vested in your company's pension plan. If you are thinking about cutting back on your hours, be sure to work enough hours to maintain some benefits.

If you leave your job, resist the urge to spend your 401(k) money! Now is the time to be protecting and building your savings, not depleting the accounts.

Budget for a regular contribution to an individual IRA to make up for lost pension contributions at work.

Prior to leaving a job or reducing your hours, try to pay off all credit card and loan debts. This will put you in a better position to save some money after the job change.

Be sure to exhaust your other options before leaving a job or reducing your hours. A good place to start is Eldercare Locator, sponsored by the federal Administration on Aging, which puts individuals in touch with local services and resources. (Call 1-800-677-1116 or log onto www.eldercare.gov) If you do leave the workforce, try to keep your skills updated and maintain professional contacts. Returning to work will be easier if you do.

Step 3: Make a Plan to Save Enough for a Secure Retirement and Stick to It

If you are caregiving and working, be sure to participate fully in any workplace retirement plan. If you think you may leave your job or reduce your hours in the future, maximize your retirement savings in preparation for this time. Look in to purchasing long-term care insurance for yourself so that when you are retired you can access a wide range of supportive services and living arrangements.

Take the time to sit down and see where you stand right now on retirement savings. Make a list of all of your sources of retirement income, and estimate what the monthly benefit will be. Include Social Security, pensions from private or government employment, and IRA and 401(k) retirement savings. The Social Security Administration sends every adult over the age of 25 a statement with their projected Social Security benefits. Contact the plan administrator of any pension plan you have participated in to determine if you are eligible for a benefit and how much it will be. Also, calculate the value of your savings, investments and any property you may own.

The next step is to calculate the amount of income you will need in retirement. Most experts recommend planning for at least 80% of your pre-retirement income to maintain your current living standard. WISER recommends a goal of having 100% of your pre-retirement income because inflation and medical costs increase steeply over time.

Finally, calculate the gap between your estimated retirement income and your retirement income goal. The gap is the amount you will need to save between now and retirement in order to meet your overall goals. WISER's website has a new online calculator that can be used to calculate how much you will need to save each year in order to build the nest egg you need. A recent study by Rice University found that women who are caregivers are 2.5 times more likely to live in poverty after retirement than women who are not family caregivers. Don't let this be you! Careful financial planning early on can set the stage for a secure retirement.

Basics of Budgeting

*Start this process by **keeping track of your expenses for one month**. Buy a small notebook and take it with you everywhere. Keep track of everything you spend money on, even the very small expenses. At the end of the month, put your expenses into categories, like food, transportation, entertainment and clothing. **Look at how you spend your money**. You might be surprised, for example, that you spend so much on food when you are not eating at home. Look carefully for ways to cut expenses and free up more income for savings.*

*Next, **add up your total net income and divide by 12 to calculate your monthly income**. This is what is available to you to pay your bills. Subtract all of your regularly monthly bills and the other monthly expenses you found by keeping track of your spending. This will tell you what money you have left over for emergencies, like car repairs. Try to **set some money aside for emergencies**, so those situations won't completely throw off your budget. **Make it a priority to start investing**, even a small amount, so that your money can start to grow.*