WISERWoman

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A Quarterly Newsletter from the Women's Institute for a Secure Retirement

Understanding Your Money and the Financial Markets

By Beth Kobliner

If you're like most people, you may tune out when you hear technical discussions about the stock market, bonds and mutual funds. And that makes sense. After all, it's just not what you do, right? But with the cards stacked against women when it comes to preparing for retirement (lower Social Security payouts and lower lifetime income, to name a few factors), investing is one of the best ways to make your savings go farther.

Here's a quick primer on some of the most basic types of investments, whether you choose to save in an individual retirement account (IRA) or your company 401(k) or 403(b) plans.

Most people invest at least some retirement savings in some form of **stock**, which is a measure of ownership in a company. Stocks aren't savings accounts, so you don't earn interest. Instead, some companies make regular payouts called **dividends** to shareholders. You can also make money by buying stocks at a low price and selling at a higher price. The problem is, it's hard to do this, and that's why most individual investors should avoid owning individual stocks.

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You don't want to put all of your nest eggs in the same basket. Instead, you'll want to consider **stock mutual funds**, which combine money from many people and spread it out among many stocks. This way, if one "basket" (stock) fails, you still have most of your nest egg in the others.

These funds come in two categories: **actively managed** and **passively managed** or **index funds**. Actively managed funds are run by people who decide which stocks to buy and sell. When you invest your money in one of these funds, you're really betting on their managers' ability to make the right picks.

Beth Kobliner is a financial journalist and author of *Get a Financial Life: Personal Finance in Your Twenties and Thirties.*

Index funds are considered "passive" because their managers simply buy the stocks that make up a specific market **index** like the S&P 500, Dow Jones Industrial Average or Nasdaq (see box on page 4). These gauges give you a snapshot of how the market as a whole is doing.

All mutual fund companies charge investors an annual fee called the **expense ratio** (a percentage of the amount of money you have invested in a particular fund) to cover operating costs. The average actively managed stock mutual fund currently charges 1.45%, or $14.50 on every $1,000 you invest. However, some index funds charge as little as 0.07%, or $0.70 on every $1,000.

This expense gap means that your actively managed fund has to beat the index fund by 1.38% (1.45% - 0.07%) every year after fees are taken out. That's hard: Even the best active manager can have a bad year, and there's no guarantee you'll pick the best manager to begin with. Research shows that historically, you'd have been better off in the long run if your money was simply put in a portfolio that follows the stock market as a whole.

Your Money and Financial Markets *continued on page 4*

From WISER's President

Dear friends,

Financial planning is hard enough in the best of times, so it is understandable if you feel a bit uneasy today. With a steady stream of worrisome news—turmoil in the stock market, inflation woes, mortgage meltdown—it is difficult to know what to do about personal savings and investments. Our advice? Stick to the basics. Trying to predict what the markets will do, or where the real estate market is going, will only cause you trouble.

To help you stay on track, this issue covers the basics of saving and investing, including a checklist for what to focus on as you age. For more help, we've included reviews of our favorite financial books. So, educate yourself on the options, and stay a steady course.

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Available On WISER's Website www.wiserwomen.org

Check out our new e-Book on Retirement:

What Women Need to Know About Retirement, produced in conjunction with the Heinz Family Philanthropies. Click on *Publications* from WISER's homepage.

Other Publications You Should Know About…

- *What Today's Woman Needs to Know: A Retirement Journey*, produced in conjunction with the MetLife Mature Market Institute. See *Publications*.
- *Siete Decisiones Financieras que Pueden Definir el Rumbo de su Vida* (*Seven Life-Defining Financial Decisions*), produced in conjunction with the Actuarial Foundation. See *Publications*.
- New Research Highlights Generation Gap: *It's Not Your Mother's Retirement: A MetLife Study of Women & Generational Differences.* Go to *Research*⇨*2007 Research* from WISER's homepage.

Have You Checked Out Our Fact Sheets?

Topics include: Money Basics, Investments, Retirement Basics, Social Security, Health and Caregiving, Overview of Women's Issues. Many are also available En Español. See the *Fact Sheets* section of the website.

Some new titles are:

- *Signing Up for Medicare: It's Not Necessarily Automatic*
- *And You Thought that IRA Aunt Sadie Left You Was Free Money*
- *WISER Special Report: Paying for Health Care in Retirement*

Sign up for WISER's Email List on the homepage for monthly updates, news and announcements.

We Moved— Before the Building Came Down!

Please note our new address as of September 10:

1146 19th Street NW
Suite 700
Washington, DC 20036

Let us know if your address has changed, too!

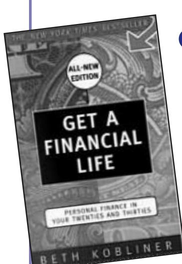
The Best Financial Books

Divorce & Money: How to Make the Best Financial Decisions During Divorce

by Violet Woodhouse with Dale Fetherling

In a divorce, money is one of those unavoidable and scary topics, often complicated by emotions. This guide from the legal experts at Nolo can be a level-headed friend when confronting the unfamiliar territory of divorce. Although lawyers themselves, its authors assume their readers want to know as much as they can before approaching an attorney, and present the facts in a straightforward, practical manner. For trustworthy advice on "the house," joint accounts, tax issues, alimony, dividing debts, and managing—not ignoring—your emotions, check out *Divorce & Money* first.

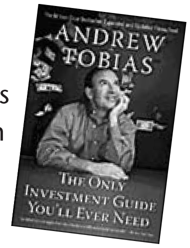
Get a Financial Life: Personal Finance in Your Twenties and Thirties



by Beth Kobliner

This book is a smart choice for any person managing her finances for the first time —or for the first time responsibly. *Get a Financial Life* is exceptionally thorough but never dull or overwhelming. For the busiest readers, chapters include "Financial Cramming" sections that summarize the most important ideas from each. Chapter three, "Debt and the Material World," is crucial reading for anyone struggling to get out of debt, and alone worth the price of the book. Look out for the new edition next year.

The Only Investment Guide You'll Ever Need

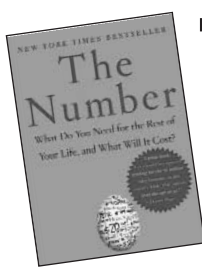


by Andrew Tobias

Tobias's guide is (still) packed with sound advice for the new or average investor, and for most people, the book should live up to its name. His suggestions—from buying in bulk to avoiding corporate bonds—are sensible and honest, and as personal finance books go, this one's a page-turner (you will actually read it). Newly revised, each chapter offers specific, up-to-date answers to almost all finance and investment questions, and where Tobias doesn't go into depth—he points to the Web page or other resource that does.

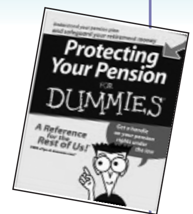
The Number: A Completely Different Way to Think About the Rest of Your Life

by Lee Eisenberg



The Number is less a retirement guide than a reflection on issues facing an aging population. Eisenberg is a journalist, not a financial planner, but his experience writing on the topic is evident. According to Eisenberg, everyone should be thinking about his or her "Number"—the amount of money required to meet an individual's expectations for life in retirement—and everyone's Number is different.

Protecting Your Pension For Dummies



by Robert D. Gary, and Jori Bloom Naegele

The technical and ever-changing nature of pension law can confuse even the savviest employees, but choosing to stay uninformed could lead to a loss in retirement income. This how-to from the "Dummies" series contains comprehensive information on pensions and, more importantly, how to protect yours. The chapters are thoughtfully organized, so it is easy to skip around without feeling lost. Includes an index and glossary of terms.

Smart and Simple Financial Strategies for Busy People

by Jane Bryant Quinn

Jane Bryant Quinn's success as the informative and charming *Newsweek* contributor continues with her latest book. She covers all the bases, but perhaps most helpful is her advice on "Putting Your Whole Financial Life on Cruise Control"—the idea being that money saved automatically is less likely to be spent frivolously (on decorating your basement with the latest exercise equipment, for example). Shifting to "automatic" can save time and money. Quinn's personal stories of struggling with debt make this an enjoyable and worthwhile read.

Did You Know?

A quick Amazon search shows approximately 30,000 personal finance books available in English. It may be wiser to check out titles from the 1,000 books on the subject available in libraries.

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Many companies also charge a **load,** an added fee, basically a commission that you pay to either buy into a fund or sell your shares. Avoid these funds.

I'm a big fan of no-load low-expense **stock index funds**. You're still putting your money at risk (all stock investing involves risk), but I believe this is the best way to do it. One of my favorite fund companies is **Vanguard** (vanguard.com), which offers a range of index funds like the Total Stock Market Index fund.

What Types of Index Funds Are Out There?

Just as there are several indices that track stock market activity, several varieties of index funds exist.

You can buy shares of index funds that only invest in the 30 stocks of the Dow Jones Industrial Average, but while these companies are some of the biggest and most reliable blue chips in the world, a portfolio with only 30 stocks isn't going to provide you with true diversification in case huge companies fall out of favor.

Instead, most investors gravitate toward S&P 500 index funds, which include 500 stocks ranging from the global giants to somewhat smaller or more specialized companies. Some of the lowest-priced mutual funds in the market are S&P 500 index funds.

If you'd like even better diversification, you can buy into index funds that invest in broader slices of the stock market, including a greater number of smaller companies in their portfolios.

Some index funds reflect the Nasdaq Composite, while others track the Russell 3000 index and still others broaden their horizons to the entire Dow Wilshire 5000 equity index, which invests in practically every major publicly traded U.S. stock.

Bonds are another type of investment you might consider for your retirement savings. If stock represents ownership in a company, a **bond** is basically a loan you can make to a company, a municipality, the U.S. Treasury or a government agency. Bonds are generally considered less risky than stocks, but they aren't risk-free. Financial trouble could force the bond's issuer to miss its interest payments.

I'm a big fan of no-load low-expense stock index funds. You're still putting your money at risk (all stock investing involves risk), but I believe this is the best way to do it.

There are **bond mutual funds** available from the same companies that sell good stock funds. Bond funds tend to be less risky than stock funds, but pay generally lower returns—and there are always exceptions. If a bond fund's managers make bad trades, you could still end up losing money.

With all of these choices, how do you choose wisely? The answer ultimately depends on the amount of risk you can live with. If you have many years left before retirement and you're willing to take a chance, you may want to put more of your money in stock funds or other investments that offer relatively high rewards and correspondingly high levels of risk.

Your Money and Financial Markets
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What Are the Dow, S&P 500, and NASDAQ?

There are about 15,000 U.S. stocks that change hands every day, so Wall Street has developed some gauges to give investors a clearer perspective on where "the market" is moving. These are the various **averages** or **indices** that people make such a big deal about when they talk about financial markets.

The Dow Jones Industrial Average ("the Dow") is the oldest and most famous index. It is an average of the stock prices of 30 of the largest companies, each hand-picked by the editors of the company (Dow Jones) that publishes *The Wall Street Journal.* These are McDonald's, Disney, Microsoft, and other household names—big stocks like these are called **blue chips**.

Since 30 stocks is only a small sample of the very biggest multi-billion-dollar companies, **the Dow** doesn't always provide an especially accurate reading of where the entire market is going.

The Standard & Poor's Index of 500 Stocks (S&P 500) provides a wider sample of the market. When this index was created back in 1957, those 500 companies accounted for about 80 percent of the total value of all American stocks, and even today, this index provides a fairly accurate look at what's driving the stock market as a whole.

The Nasdaq Composite Index (Nasdaq) contains about 3,100 of the more than 4,000 stocks that are bought and sold on the electronic NASDAQ network. This is the index that included many of the most famous (and infamous) high-tech and Internet companies of the late 1990s.

It's Not Your Mother's Retirement—and What to Do about It

It's Not Your Mother's Retirement: The MetLife Study of Women and Generational Differences predicts daughters will work longer and pursue a more active retirement than their mothers; they will also, the study suggests, carry higher levels of debt.

The generational differences are real: While older women may have entered retirement with better benefits, a spousal Social Security benefit and a mortgage-free home, women today may be more financially vulnerable, and it is increasingly an individual's responsibility to adequately prepare for retirement.

WISER has written a booklet to accompany the study, *What Today's Woman Needs to Know: A Retirement Journey,* addressing the challenges with specific guidelines for women in their 20s through their 70s. For a woman in her 20s or 30s, for example, a good investment plan begins with determining how much money she'll need to support her retirement lifestyle, how long she has until then, and how comfortable she is with financial risk. The booklet also covers reverse mortgages, immediate annuities and long-term care, among other options for ensuring a secure retirement.

The booklet is available online at www.wiserwomen.org.

A Retirement Planning and Saving Checklist for the Decades

20s

- Check out your job's benefits.
- Get into the habit of saving.
- Start saving for retirement.
- Strive for a debt-free life.

30s

- Keep saving, invest more.
- Keep your debt in control.
- Do an insurance checkup.

40s

- Set a specific retirement savings goal.
- Look at how you are investing 401(k) and IRA assets.
- Ask for professional help.
- Do an insurance checkup.

50s

- Revisit your retirement savings goal.
- Take advantage of higher contribution limits in 401(k)s and IRAs that are now available to you.
- Look at how your 401(k) or IRA money is invested. You can still afford to have money in stock mutual funds.
- Review your insurance situation.

60s

- Review retirement spending strategy.
- Compare pension payout options.
- Consider your health.
- Consider your options if you can't afford to retire.

70s

- If you haven't started withdrawing from your IRA by age 70½, do so to avoid tax penalties.
- Start collecting Social Security at age 70 if you have delayed your benefit.

Learn more about preparing for retirement by downloading *What Today's Woman Needs to Know: A Retirement Journey.* http://www.wiserwomen.org/pdf_files/todayswoman.pdf

Your Money and Financial Markets

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On the other hand, if you expect to retire in a few years and don't want to risk losing ground in the short term, you'll probably want to keep a bigger portion of your money in lower-risk investments like bond funds. Your money won't grow as fast, but you'll be somewhat safer.

Many people discuss their investment choices with a financial advisor. In general, advisors who work on a "**fee-only**" basis have fewer conflicts of interest. Stockbrokers and bank employees usually earn a commission from selling certain investment products, even if those investments aren't the best fit for your needs. This does not mean they're bad; it's just something you should be aware of.

If you're just looking for help, Financial Engines (financialengines.com) will suggest ways to maximize your investments. This service isn't free ($39.95 for a three-month subscription, or $149.95 for a year), but it's good and unbiased advice for people trying to make sense of their options.

Help for Caregivers

The non-profit *Medicare Rights Center* has launched a web-based seminar for family members providing care to an Alzheimer's patient. The seminar covers important topics such as Long-Term Care planning, Medicare-covered services and legal decisions, and Advance Directives. Download a print copy of the seminar or listen to an audio recording at this Web address: http://www.medicarerights.org/webseminar.html.

A Healthier U.S. Starts Here

The Medicare program provides a handy checklist for seniors to take to their doctors, with a list of all Medicare covered preventive care services, such as glaucoma testing, diabetes screening, mammograms and smoking cessation benefits. The checklist is a tool to help seniors talk to their doctors about which services they need in order to maintain optimal health. The checklist also provides the rules for eligibility, such as how often a senior can receive payments for each service. Improve your health and avoid unnecessary charges by taking this checklist to the doctor with you! You can find the publication on the Web at http://www.medicare.gov/Publications/Pubs/pdf/11308.pdf.

WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income though research, workshops, and partnerships.

Next Issue:

- **Estate-planning must-haves: Wills, Trusts, Advance Directives, and Power of Attorney**

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