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Regions Wealth Podcast

Episode #20: Planning for Retirement: Balancing Parenthood and Employment

According to Pew Research, 27% of American women opt to put their careers on hold in order to raise a family. As the study points out, such family-related career interruptions can impact women's economic prospects in a variety of ways, even contributing to the gender wage gap. However, one factor that often gets overlooked is the overall impact on retirement planning. In this episode of Regions Wealth Podcast, Senior Vice President and Private Wealth Advisor Lisa Harless joins us to discuss retirement planning considerations for anyone making the decision to put their career on hold in order to raise a family.

Episode Transcript

Sarah Fister Gale:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister Gale.

According to Pew Research, 27% of American women opt to put their careers on hold in order to raise a family. And as the study points out, such family-related career interruptions can impact women's economic prospects in a variety of ways, even contributing to the gender wage gap. However, one factor that often gets overlooked is the overall impact on retirement planning.

Joining me remotely today is Lisa Harless. She's the Senior Vice President and Private Wealth Advisor for Regions Bank. Lisa, thanks for joining us today.

Lisa Harless:

I'm excited to be here, Sarah.

Sarah:

In this episode of Regions Wealth Podcast, we're discussing retirement planning considerations for anyone thinking of leaving the workforce to raise a family. We've taken some frequently asked questions from a bunch of people and developed a character who needs your help. Let's listen.

Claudia:

"Hello, my name is Claudia. I'm 34, and married. My husband Jermaine and I met in law school, and we got married one year after graduating. We both dreamed of having a big family and wanted to be young parents. Of course, I also had other dreams that I wanted to pursue: I

wanted to become a civil rights attorney. We sat down and had some serious conversations — would it even be feasible for us to raise children if we're both managing demanding careers? Ultimately, we decided that he should go into practice, and I'd put my career on hold for a few years while we started our family."

Sarah:

So in episode 14 of the podcast, we had a great discussion with Missy Epperson about the gender pay gap and how it might have a significant impact on retirement savings. Lisa, I'd love to dive a little bit deeper into that topic. How much do factors like maternity leave impact an individual's retirement savings?

Lisa:

Sarah, our retirement savings are driven by our ability to make money. So the more time each of us is spent in a revenue generating mode, the bigger our nest egg will be at retirement. Any career break, say, a maternity leave for several weeks to several years, are things that can impact that retirement nest egg. In addition to the gender pay gap you mentioned, one study that I read said that one in five women who leave the workforce for a period of time, they're going to take a 20% pay cut when they go back to work. So now they're reentering at a lower salary. And so many things are impacted by that.

I think about as women that we have so many decisions to make in life. We have to decide, do we want to further our career? Do we want to take on the role of parenting? Do we want to switch between the two? When I look at Claudia and Jermaine, I think about the fact that they have completed law school. So they are both, obviously, well-educated, disciplined people. They likely have a plan. One of the things I would encourage them to do is to experiment with living off of just Jermaine's salary, and then if Claudia does forego her career for a period of time, they can determine if they can live within their budget.

Sarah:

Here's a bit of research that I found interesting: 10% of women who decide to put their career on hold have a Master's degree, while another 6% hold a Ph.D. So, for someone in this position — female or male — what factors should they consider when planning to leave the workforce for an extended period of time?

Lisa:

There are definitely proactive things Claudia can do during this maternity leave. Anything that she can do to improve her resume and to keep her skills sharp for her potential return to career will definitely be to her advantage. She could do some freelance or consulting work, to stay active. That will keep her resume fresh. She needs to think about her own retirement and just make sure she is protected during that time away from the workforce. One thing she could do is if she and Jermaine file a joint tax return, she could get a spousal IRA and contribute to that with his earned income.

Sarah:

That's great advice. Is there any way that a couple can calculate the impact on their retirement savings before they decide whether one of them should leave the workplace?

Lisa:

One of the things a couple can do is look at how much would have been saved had the spouse been working. Maybe she would have been part of a 401k plan, and determine what dollar amount she might have contributed for the calendar years that she was working. And then they can say, okay, if that retirement happening is not occurring, we're going to have a gap, and at some point we will want to try to catch up for those lost savings for our retirement nest egg.

Sarah:

Oh, that's a really good point. That if you take some time off, but add a little extra later on, you may be able to make up that gap.

Lisa:

Exactly. You'll have that opportunity to do so.

Sarah:
Great. So let's listen to a bit more of Claudia's story.

Claudia:
"Once I had my first child, my priorities changed. I'm quite happy holding things down on the homefront and supporting Jermaine while he pursues his dreams. He's been quite successful as an IP attorney, and we're very comfortable on his salary alone. We have a wonderful relationship, but I'll be honest — being completely reliant on him does make me nervous. You can't really ever predict what will happen 20 or 30 years down the road. My biggest concern is retirement. If I'm not working and contributing to my own retirement plan, what would happen if we get divorced?"

Sarah:

Claudia is asking a really good question here. While I know laws vary, generally speaking, what's the norm when it comes to retirement plans and divorces if one spouse was the proverbial breadwinner for the family?

Lisa:

Sarah, I have found that every person's situation is completely unique to them. For a divorce, first and foremost, I think it's so important for people to have a divorce attorney to guide them through the process. I'm not talking about a neighbor who once did a real estate contract or prepared a deed of trust. We want someone who is well-versed and experienced in divorce law to guide our clients.

You know, many couples marry or remarry later in life. By that point, both parties may have their own financial assets. There may be an appropriate time for a prenuptial agreement where each one could, say, safeguard their respective retirement assets and accounts. I know the accountants we work with are excellent sources of advice for our clients, but it all comes down to having really solid legal counsel in the divorce case. Now, I will say from my decades of experience as a wealth advisor, it is not uncommon for retirement accounts to be divided between the two parties if only one of the parties was the one generating the income during the marriage.

Sarah:

Claudia is happily married, but she is also thinking about what would happen if things change. You only think about splitting your retirement when you're ready to get divorced. But should couples be talking to their financial planner about this before things go bad?

Lisa:

That's an excellent point. We all need to be prepared for what we don't know that the future might hold. The future might hold the unforeseen passing of a spouse. It could involve a divorce. We don't know. So looking at all those variables is very prudent for one to do. That's the exact type thing that they would have a conversation with their advisor about. Paramount to all of this is building a financial team that will help both of them have a solid understanding of their assets. I know that many times when one party's the breadwinner, maybe he says, "I'll bring home the money, you take care of the household needs," but yet it's the breadwinner that's involved in the financial conversations with the advisors, and the spouse often leaves that information up to him to learn and to grasp. She needs to become empowered at all stages so that she'll be ready if the unforeseen circumstances happen.

Sarah:

So Lisa, you're saying that both partners should be talking to their wealth advisor and involved in those discussions, even if there's only one breadwinner?

Lisa:

Correct. That's very important.

Sarah:

So let's approach this from a different angle. What if Claudia is just taking a short break from her career, say, five years. What adjustments should she make in order to compensate for that gap?

Lisa:

I would really encourage Claudia to keep contributing to an IRA, whether that's the spousal IRA, a traditional or 401k through his employer, and hopefully there might be an employer matching contribution benefit. I would encourage Claudia to have regular conversations with Jermaine, maybe review those quarterly statements that come in, just to make sure that he is contributing and maxing out the 401k.

One thing I would encourage her to do is just maximize her savings to catch up for that lost time. It might not be a dollar for dollar recovery, but it will be a great effort, and she can max out on her 401k contributions, consider an IRA in addition to the 401k contributions. Those are just a couple of ideas that come to mind.

Sarah:

That's good advice. Let's head back to Claudia and see what else is on her mind.

Claudia:
"I want to be sure I'm taking the right steps now to ensure I'll be fully protected in the future. My mom gave up her career to raise our family. My parents divorced later in life, and my mom is now on her own. Everything was pretty amicable at first in terms of determining spousal support and all of that, but when it came to divvying up dad's retirement accounts, things got a bit messy. My mom finally just decided to back down. Now? She's back in the workforce, and so close to retirement and isn't sure how to plan. I guess my point is, I don't want to end up in that position, too."

Sarah:

This is a great point. Let's consider someone with a different time horizon. Claudia's mom entered the workforce later in life. We don't know precisely how old she is, but let's assume she's 50. What are her options?

Lisa:

I have worked with multiple clients in this exact scenario. I've even helped a family member that had some of these situations occur. I think it is so important for Claudia's mom to find an advisor that she can relate to, that she can open up to, that will speak in terms that she can understand. Hopefully, that new employer will have a 401k plan that she can participate in. Maybe the matching contributions that will help. One of the cool things about a 401k is that once you're over the age of 50, you can actually make extra contributions. So that will be a way that she can catch up somewhat. It will be very important that her mother understand what her future social security benefit is going to be. I know I'm used to getting that annual letter from the SSA, the Social Security Administration, that gives me the breakdown of what my anticipated benefit will be. That's the type information that one may share with their advisor. That helps them understand what that future income is going to look like. Claudia's mom is definitely going to need that direction. So I would encourage her to meet with her wealth advisor, just to learn how to project future income needs, income sources, and how to manage any investments that she has.

Sarah:

Do you find that some people in Claudia's mom's position tend to ignore this problem or put it off until it's too late?

Lisa:

So many times it's not that they have deliberately ignored or neglected this part of their life. They have more than likely had a spouse who had said, "I'll take care of these matters. You don't need to worry yourself with this." Then in the time of the spouse's passing or a divorce, both of which might've been unexpected, then she's left there not having any knowledge of where to even begin. So you're never too old or too young to learn. I've had clients in their seventies who have suddenly found themselves divorced, where the husband took care of all things financial. It's been actually wonderfully fulfilling to me to help bring those clients along to say, "You've got this, you can learn this. We can teach you to do your online banking. We can teach you the difference in what a stock, and what a bond, and what a mutual fund is. We can teach you about property taxes and income taxes." You are never too old to learn. I find great joy in helping my clients, whether they are 20 or 80, learning about their finances.

I think it is so invaluable for all of us to have a team of professionals supporting us at any stage. What is key is that you find someone that you can confide in, who will explain things to you, say, in terms that you will understand, and that they speak your language, so to say. I think it's going to be important for Claudia's mom to find that type of wealth advisor she can relate to. I think about the word advocate, how it can be a noun, or an adjective, or a verb. So she needs someone that will be her advocate, and will advocate for her financial needs to help her achieve those financial goals she's going for. So finding that wealth advisor that she can confide in, that will speak in terms to where she can have those aha moments and go, "That makes sense. Now I understand what you're saying," that's going to be very important for her as she navigates into this future where she's going to be learning and grasping financial concepts.

Sarah:

So Lisa, at the end of these podcasts, we always like to ask one final question. What are some key takeaways that we can share with our listeners?

Lisa:

One of the key takeaways would be, knowledge is power. From the minute we begin earning income until retirement, it is so key and important to have a good working knowledge and a plan. So that plan becomes our target, and then when we know what our target is, it's often some basic math that helps us fill in those blanks. Working with an advisor, they're going to help you understand how to manage your earnings, to achieve the investment goals that you need to be able to manage risks, because ultimately the goal is to not outlive your money, right? We want to have enough money to live throughout our lifetime.

Number two, having a team of professionals you know, and that you can confide in to guide you at every stage of your financial life. A third factor here would be keeping open communication lines about your finances at every stage of your relationship. So you're prepared for those unexpected things that could happen, or you're prepared for the expected things that will happen. Then finally, if you're going on maternity leave, don't leave the workplace until you need to leave. And while you're still in your career, be aggressive. Go for gusto. Live fully and achieve those goals.

I grew up in a West Tennessee rural town. There were a lot of farmers and I can remember hearing them say, you know, "Make hay while the sun shines." And I want to do that with every aspect of my life, but particularly with earning money, saving money, prudently investing and saving, and planning for my retirement. So those would be some of my parting thoughts as a seasoned wealth advisor.

Sarah:

Thank you so much, Lisa Harless, Senior Vice President and Private Wealth Advisor for Regions Bank. You've given us some great actionable insights today and we appreciate it.

Lisa:

My pleasure, Sarah.

Sarah:

And thank *you* for listening. To discover more wealth planning and retirement planning insights for women, visit regions.com/hervisionherlegacy.

Each episode of Regions Wealth Podcast covers a different financial topic, so be sure to visit regions.com/wealthpodcast for more episodes.