The Exchange: Discussions on Women's Financial Literacy

Episode No. 2: Financial Basics

Jill: Hi, and welcome to our second episode of the Women and Financial Literacy Podcast. I am your host, Jill Harris. Before we get started, I want to state the views expressed today are my own and do not necessarily reflect those of the Commission, the Commissioners, or other members of the Staff.

Today, I am joined by Sarah Mallett, an Assistant Director here in the Fort Worth Regional office. Sarah is a wife, and mother of two. She worked in private practice and has been with the Commission for just over five years. Thank you for joining me Sarah.

Sarah: Thank you for having me! I am very honored and excited to engage in such an important conversation. Just one note: my views expressed today are my own and do not necessarily reflect those of the Commission, the Commissioners, or other members of the Staff.

Jill: Today we are addressing the investment basics. It's important to start the series here, because we know from the studies that a lot of women do not feel confident with long-term investing,[1] despite the fact that women are statistically better at investing.[2] With women controlling more than 60% of all personal wealth in the U.S.,[3] it's more important than ever to have this conversation.

There's a lot of ground to cover, but we are going to prioritize three topics: (1) ***first***, budgeting; (2) ***second***, salary negotiation and career planning; (3) and ***finally***, managing debt. It might not seem like these topics directly relate to investing or investment products, but understanding these financial basics increase your likelihood of having discretionary income. The more discretionary income you have, the more flexibility you have to invest and explore the different investment options.

With the disclaimer that these topics are broad, and often overlapping, Sarah, let's talk budgeting!

Sarah: Thanks Jill. So, budgets are highly individualized and it's often about determining a balance between your needs, wants, savings and being able to pay your future self (often through investments).

A good rule people often follow is the 50/30/20 rule: The basic principle is to divide up your after-tax income and allocate it: 50% on needs, 30% on wants, and socking away 20% to savings.[4]

Jill: Sarah, I really like the 50/30/20 rule as a good first principle. I wanted to start with the budget rules because it's easy to remember, and it is a good lens to view our other topics. We will definitely refer back to this later.

Let's move on to the topic of female investors entering the job market -- say you are just out of school or training and looking at that first job – what should you be considering?

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[1] https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/FidelityInvestmentsWomen&InvestingStudy2021.pdf

[2] https://www.nytimes.com/2021/10/29/your-money/women-investing-stocks.html

[3] https://girlpowermarketing.com/statistics-purchasing-power-women/

[4] See https://files.consumerfinance.gov/f/201603_cfpb_rules-to-live-by_my-spending-rule-to-live-by.pdf; https://www.investor.gov/introduction-investing/investing-basics/save-and-invest/figure-out-your-finances

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Sarah: A lot to unpack here. First, your job is more than just a salary. Salary is an important factor, but not the sole factor in assessing an employment offer. Another consideration is workplace benefits like 401(k) plans, IRAs or pensions. Each of these can make your path to saving and investing easier.

Jill: Completely agreed. Can you give an overview of how these benefits work?

Sarah: Sure. A 401(k) plan is an employer-sponsored retirement savings plan that gives employees a choice of investment options, typically mutual funds. They have a tax benefit, and some employers match your contribution.[5] An IRA - which stands for individual retirement account – allows you to make tax-deductible contributions in a separate fund.[6] Finally, pension plans (sometimes called defined benefit plans) are where employers sponsor the plan's investment and then provide you with a monthly benefit upon retirement.[7] The important thing with a lot of these benefit plans is that you can set up automatic monthly contributions from your bank account and then you get the benefit of that compound interest over time. If you can, ask your potential employer about the details of these plans *before* you commit to taking a job.

Jill: That's really helpful. I feel like so often the topline salary number wins out – and I know for a lot of people starting out (including myself) – you think to invest, I need this big chunk of money that can only come from a large salary; but these benefits you outlined are very important because they help you automatically save and start getting into those good habits early in your career.

Sarah: Exactly – so this goes back to the 50/30/20 budgeting rule – if the savings is automatic it makes putting that 20% away for retirement and investment even easier.

Jill: So any other workplace benefits women should consider and/or ask for?

Sarah: Another one that is important is student loan assistance. I know we are going to talk more about debt in the next topic, but student loan payoff is a large part of the budget for beginning investors. This is especially true for women, as women hold nearly two-thirds of the outstanding student debt in the U.S.[8] Race also plays a factor: Black women borrow more than their white counter parts – graduating with the most debt - at over $37,000 on average – compared to $31,000 for white women and $30,000 for white men.[9] Importantly, women also take about 2 years longer than men to repay student loans and are more likely to struggle economically as they do so.[10] In that time, interest accrues.

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[5] https://www.investor.gov/introduction-investing/investing-basics/glossary/401k-plan

[6] https://www.investor.gov/additional-resources/retirement-toolkit/self-directed-plans-individual-retirement-accounts-iras

[7] https://www.investor.gov/introduction-investing/investing-basics/glossary/defined-benefit-plan

[8] https://files.eric.ed.gov/fulltext/ED580345.pdf

[9] https://www.aauw.org/resources/article/fast-facts-student-debt/

[10] *Id.*

So, knowing that, if you have student debt, it can help to find an employer that has programs to help pay off student loans. This is a major benefit because it directly addresses the "50%" needs portion of your 50/30/20 budget and can free up discretionary income for investing and paying your future self.

Jill: Yes, and with the increased prevalence of student debt – more employers are making this a part of their benefits package.

You mention that 50% needs bucket, and that's a great segue into the topic of care – this is a big topic that we are going to dive into in the next episode, but I think it's worth mentioning here how much money care – whether it's health, childcare or eldercare - can really eat up that 50% needs part of the budget. The average cost of childcare alone in the U.S. is roughly $10,000 a year per child and consumes about 13% of family income, which is nearly twice what the government considers affordable.[11]

Sarah: That's right, so if your employer can offset some of that cost – again, you may have more discretionary income to invest. There are a lot of options out there, but everyone should consider the amount of family leave, sick leave, child care and elder care benefits offered by an employer – including any reimbursements, pre-tax programs, and discounts. Also important are health care benefits, including insurance coverage and mental health care benefits.

Here's another thing to think about: the role of flexible work schedules. Women are generally the primary care takers – and the ability to have a flex work schedule can mean you spend less money paying someone else for that care.

Jill: Yes. We've talked about the monetary benefits that will assist you in that job – and those are important. But equally important is acquiring a skill set that will help your career trajectory. Having a strong skill set can mean financial freedom, entrepreneurship, choices, etc. Can you talk about job training benefits?

Sarah: Job training is something that is so important, especially at the beginning of your career. You should consider how an employer will support you with internal and external job training. This includes attending conferences, paying for specialized trainings or licenses, networking event fees, and even financial support with continuing education requirements or graduate school. So, your potential employer may not be able to meet your ideal salary requirement, but if they are willing to invest in you, and cover some expenses that will eventually lead to you getting a higher salary – and more discretionary income – the offer is worth considering.

Jill: Now that we've covered benefit options, let's dive into actually negotiating these benefits with an employer. Salary and benefit negotiation can often be extremely difficult, especially for those starting out in their careers.

What are your thoughts?

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[11] https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf

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Sarah: Right, so I think it's important to note the role of the gender "***ask gap***" here – a recent study found that women ask for 3.3% less than comparable men. Ultimately that represents a more than $4,000 difference on an annual basis, and that perpetuates the existing structural wage gap.[12]

Therefore, it is critical for women to conduct their research before salary negotiations. This includes researching average salaries at the company and within your industry and region. It's also helpful to cold call other companies and industry recruiters to discuss salary ranges and benefits packages to get an idea of the types of packages that are available. Similarly, you should research people on LinkedIn that have your job and also cold call them.

There's a lot of psychology that goes into salary negotiation, and every situation is different, but a good practice, if you are able, is to really consider the potential offer and what is important to you *before* negotiating the salary. Instead of automatically accepting a position and then negotiating salary, take time to think about what you want in terms of salary and benefits. Go in with an ideal range for salary: your goal salary, a salary you are comfortable with, and a bottom range of what you absolutely need and are worth.

Again, think about maximizing that discretionary income for investment, ask if there is a bonus pool or profit-sharing or stock plan. If there is, ask about the amounts and the criteria for eligibility.

Jill: Great point. Learning the skill of salary negotiation is important, and the earlier the better. So, we touched on this earlier, but we have to discuss debt. American consumer debt is rising, with the average American household carrying over $5,300 in credit card debt alone.[13] Again, debt is highly individualized and personal – but extremely important.

Sarah: Yes. So, if you have a lot of debt that you are trying to pay off, that's less discretionary income that you have for investments. It is important to recognize that not all debt is created equal. For instance you could have housing debt (like a mortgage), which is expected; car notes or other high-dollar items that many people finance; credit card debt; and student loan debt. It really should all be analyzed differently.

A good goal is to prioritize paying off high-interest debt – especially if that debt does not have any tax benefits. Credit card debt, for instance, often charges high interest rates and penalties if you do not pay on time. As an example, the average annual return of the S&P 500 index between 2016 and 2020 was 13.95%, while credit card interest can run well into 20% or above. – Credit card debt should be paid down early and avoided entirely, if possible.[14]

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[12] https://ninaroussille.github.io/files/Roussille_askgap.pdf; *see also* https://blog.dol.gov/2021/03/19/5-facts-about-the-state-of-the-gender-pay-gap

[13] https://www.debt.org/faqs/americans-in-debt/

[14] https://www.investor.gov/introduction-investing/investing-basics/save-and-invest/pay-credit-cards-or-other-high-interest

Jill: That's a very helpful way to think of things, Sarah. So, we touched on it earlier when we talked about benefits, but how should one think about student loans when looking to invest?

Sarah: Student loan debt may be different. You should assess the interest rate, which could vary depending on how many types of student loan debt you have. You might consider whether you can consolidate your loans to get a lower overall rate. If you have a higher interest rate, then repayment of that portion should most likely be a priority above investment. You should also calculate the amount of interest you are going to pay over the lifetime of your student loan – there are a lot of great resources to help with this, including one on the Department of Education's website.[15] Then you should calculate the amount of money you can earn investing (typically between 6-7% return over the long-term)[16] versus using that same amount of money to pay off your student debt faster. Consider the amount of compound interest your investment will earn versus the amount you will save in interest payments if you put the money toward your student loan payoff.[17]

Jill: Sarah, those calculations are extremely helpful. Any other considerations when analyzing student debt payoff?

Sarah: Sure, so we know that money can be an extremely sensitive and emotional subject for everyone. You should do what makes you feel comfortable and also consider the role of an emergency fund, as well as how having debt makes you feel. That will and should factor into your decision about whether to invest and at what rate.

Jill: Agreed – You should go into investing with confidence. We've talked about big topics here: budgeting, salary and benefits, and debt – all with the goal of maximizing that discretionary income to invest. Do you have any final thoughts?

Sarah: I just want to acknowledge that discussions and decisions about finances and investing can be difficult and daunting. It's not something we typically talk about in school; not something institutions have typically chosen to educate women on; and money and finance is often viewed as a man's responsibility. Accordingly, it can feel overwhelming. The key here is taking your time: do your research, talk to people you trust, and follow your gut.

And finally, thank you Jill for inviting me to participate in this very important discussion and for all the work you are doing to increase women's financial literacy.

[15] https://studentaid.gov/loan-simulator/

[16] https://www.sec.gov/investor/pubs/sec-guide-to-savings-and-investing.pdf

[17] https://www.cnbc.com/select/pay-off-student-loans-or-invest/