M&G Insights

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Decades of saving: Women should prioritise themselves

Women may live longer than men, but they often earn less. According to Oxfam, globally women earn 24% less than men and when you factor in the extra time working women spend on household and childcare responsibilities, it's estimated women work an average of four years longer than men.

This International Women's Day, 8 March, we're sharing some important tips to help women prioritise their futures, financially. Various things can prevent women from achieving financial fitness, from the gender pay gap, to ending up as sole providers for their children. Fortunately, there are steps to take to improve the outlook. While some women may inherit or earn substantially more than others, many struggle to make the most of their money. This is especially true for women who have very little spare cash to save.

Here are some helpful tips for saving across the decades:

Saving in your 20s

Starting to save in your 20s, whether for retirement or another long-term goal gives you a head start on earning compound interest (the interest that you earn on interest). You might start small, but even these contributions add up over time, particularly if you're able to increase your savings rate each year in line with, or preferably above, inflation. Long-term investments that accumulate for several decades give compound interest the best chance to work its magic.

Being a young adult can be expensive, whether pursuing memorable life experiences or even studying towards a tertiary qualification. These choices can have an impact on your finances along with your capacity to earn and save. Protecting your financial start to life should be a priority, and an emergency fund can help you avoid nasty financial surprises further down the line – which will hopefully help you avoid having to take on additional debt. Ideally, you should have a balance of short- and long-term savings, even if you start small. Our Goal Calculator can help.

Your first job is very unlikely to be your last, and each time you change jobs you might have access to accumulated retirement benefits. Whatever you do, don't spend them. Instead, try to keep your investments growing for as long as possible in a preretirement vehicle, such as a pension or provident preservation fund. As mentioned earlier, women tend to live longer than men, so the more you have saved up when you retire, the better!

Saving in your 30s

While some women are choosing not to have kids, those who do often wait until their 30s before taking the plunge. Becoming a mother changes your financial needs and can be stressful, even if you have a joint household income with your partner. Raising kids is costly - preparing them for life with a good education is just one example. Tax-free funds such as those offered by M&G Investments can go a long way if you are saving for a goal like paying for their education. You also have the option to invest on behalf of your child. If you're not sure how much you should be saving each month, our Education Calculator is a great way to get you started.

If you are behind on your retirement savings (some of us are luckier than others to have a company pension), your 30s are an important time to catch-up. You will need to contribute more to your savings if you start at 35 instead of 25. To get real about your progress, try our Retirement Calculator.

In a recent US study, women surveyed had an average of $57,000 saved for retirement, compared to men at $118,000, while another survey in the UK found a 40.3% difference in pension savings – with women earning £7,500 less than men from their pension, per year. This demonstrates the disparity women may be facing financially and to tackle this, women need to prioritise saving more and for as long as possible.

Saving in your 40s

According to Alexander Forbes, based on data in their 2019 Member Watch Survey, having enough money in retirement means having saved 3.2 times your current annual salary by the time you are 40 years old. Other projections state that as much as four times is needed. This can be daunting if you are behind, but getting started and saving what you can, will pay off – you just have to be consistent, particularly when saving over the long term.

A financial adviser can help you understand your financial situation and select the right investments. You might need to take on more risk or make sacrifices depending on your progress, as you keep building towards your golden years. Risk assets (like equities and property) have historically offered greater returns over the long term, but there are limits as to how much you can hold in your retirement portfolio (as outlined in Regulation 28 of the Pension Funds Act). The M&G Balanced Fund is a great alternative.

Saving in your 50s, 60s, and into retirement

If you've kept up your retirement savings, the last few years of working (assuming you retire at 60 - 65) are crucial for investment growth and to ensure that you get a pension income that will meet your needs when you retire. If you can work longer, that is often optimal as it will allow you to continue earning an income while still contributing towards your retirement savings

Your adviser can help you realise any opportunities to increase or decrease your risk exposure as you continue to save towards retirement, which is now closer than ever.

Remember that retirement can last for many years – for women these days 30 years is not uncommon! Think twice before you start to “de-risk” your portfolio, since it can be important to stay exposed to equities even in retirement as a way to help make up for any potential shortfalls. If you started saving late, or weren’t able to save much in your earlier years, this could be a good option, as long as you have a suitably longer-term investment horizon of, say, seven years or longer.

No matter the decade

Whatever your age, the responsibility for prioritising your future and taking ownership of your finances ultimately rests with you. Putting yourself first and investing (literally) in your future will be the best approach for success throughout your financial journey. Every decade makes a difference, especially when saving towards retirement.

For more information on investing with M&G Investments, please feel free to contact our Client Services Team on 0860 105 775 or email us at info@mandg.co.za.