

THE **MILLION POUND** DIFFERENCE



SAVVY SARAH



TOO NICE TARA

The story of how two women who share the same lifestyle, end up being £1 million pounds apart from each other by the time they reach retirement



Savvy Sarah & Too Nice Tara

This is the story of how two women who share the same lifestyle, education, career opportunities, married at the same age, had children and the same health experience, end up being £1 million pounds apart from each other by the time they reach retirement.

Too Nice Tara and Savvy Sarah are characters we have created from our experience of meeting lots of women and considering how they vary in terms of their behaviour and decisions around financial issues.



Sarah

Sarah and Tara both -

- Finished University aged 21 and went into full-time employment.
- Good earnings potential. Income exceeds expenses.
- Bought first home with partner aged 26.
- Engaged at 27, married at 28.
- Has first child at 29 and second at 32.



Tara



The information presented in this case study is not intended to be financial advice. Whenever projections of possible future outcomes are made, it is important to accept that the assumptions used have a significant impact on the results, as no one knows what the real experience will be, the forecasts are in no way certain.

STUDENT LOAN



Tara and Sarah went to the same secondary school, they were both inspired by a smartly dressed woman who explained Human Resources Management at a career festival. She represented one of the largest employers in the area and explained how to access graduate training via university courses.



Both Tara and Sarah took advantage of the student loan scheme available to help cover tuition fees and by the time they left university they each had a student loan debt of £12,000.

They were both accepted onto the graduate training program they aspired to and once they were earning over £19,380 their employer collected 9% of any wage above the threshold and directed it toward repayments of the loan.



In our financial comparison of Tara and Sarah, it seems that Tara had a better outcome from the student loan scheme because she ended up with over £19,000 of her loan being written off after 25 years. Sarah ended up paying the full amount she borrowed, plus the interest.



The Million Pound Difference

These days all employees are automatically enrolled into a company pension.

The idea is that no-one is required to make decisions and yet they still end up in a pension. What this means is they get a generic pension rather than one that reflects their personal preferences.



Sarah knew nothing about pensions when she was auto enrolled and didn't understand how investments worked, so asked her parents what to do.

Her dad suggested she speak to his financial adviser, but he wasn't a great deal of help because she wasn't in a position to become a client of his as the fees were too high. She did some research and came across a company that offered financial advice on a subscription basis making it far more affordable. They were able to advise which was the best fund to invest in and explained the benefits of contribution matching. Sarah was torn between saving a deposit for a house or increasing her pension contributions to benefit from the employer matching arrangement. In the end the incentive of 'free money' from the employer was enough to persuade Sarah.

Tara was enrolled into the company's pension scheme as well. Initially she considered opting-out because she was keen to save as much as she could toward a house deposit, but her colleagues persuaded her against it.

She remembers receiving the joining booklet but never got round to reading it, she didn't realise there were other funds she could invest in that might be more appropriate for her than the 'default' investment strategy.

She remembers colleagues saying the employer would match her contributions up to 10% of salary, but this sounded like a lot of money, especially as it would be years before she could get her hands on it, so was stuck with paying the minimum amount.

Tara's decision to let her pension default to the basic options instead of taking advantage of her employers offer to match any additional contributions was an expensive mistake.



Check out the table on the following page -note the difference in Pension value!

Exploit Pensions opportunities

THE TABLE BELOW SHOWS THE MASSIVE DIFFERENCE SARAH MADE TO HER WEALTH BY EXPLOITING HER EMPLOYER'S OFFER OF FREE MONEY AND MAINTAINING HER PENSION SAVINGS THROUGHOUT HER WORKING LIFE.

	Tara	Sarah	Difference between them
House	0	270,065	270,065
Savings	193,656	0	193,656
Investment	0	311,352	311,352
Pension Pot	118,344	713,405	595,061
	312,000	1,294.823	

These figures are extracted from comprehensive cash flow modelling for Sarah and Tara - copies of the full models are available upon request from info@womens-wealth.co.uk

In our case study we have used comparable investment growth rates throughout (5.5% please refer to appendix for details of case study assumptions), but in reality their pension pots are likely to have been invested differently.

Sarah would have been coached in the risk reward dynamics of long-term investing and very likely have been advised to select an alternative investment strategy to the middle of the road default fund.

If this resulted in just 0.5% more investment growth in Sarah's pension she would have had a further £90,000 in the pot at retirement.



Did you get that!!!! 0.5% difference in the annual growth rate on Sarah's pension adds up £90k more to the pot!!! This just goes to show how easy it is to underestimate the impact of what seem like tiny differences.



Tiny differences can mount up over the years

Sarah was focused on protecting her career and Tara was a little more relaxed, she accepted that others who had no aspirations to start a family may be more appealing to her boss.



Tara's husband Nick did get promoted so when it came to deciding which of them would step back a bit from work to meet the needs of their family, it was her as the lower earner. Anyway, Nick didn't relate to the stay-at-home dad role and Tara slotted into the role easily even though it was challenging and exhausting at times. She was grateful that Nick took on the running of the family finances because she found finances a bit boring and had plenty to keep her occupied.



Sarah made it clear to her boss that her career was important to her. She and Paul were earning the same when Sarah fell pregnant. Sarah had parental leave and a period of part-time working. Paul did get ahead of her on the promotion ladder while she was part-time, but Paul and Sarah agreed to set up a team bank account so that their joint earnings were utilised fairly between them. Both wages went into the account, all household, childcare and family spending was budgeted for and any surplus transferred to their individual bank accounts for personal use.



They agreed that just because Sarah was the one who was now working part-time, it didn't mean they shouldn't share the financial consequences of this - Paul was grateful that Sarah wanted to go part-time and spend some time with the children as he didn't see himself in the primary carer role.

Negotiate a team bank account so the unpaid worker shares equally in family income



Both couples saved a deposit and got onto the property ladder at 26. Their first mortgages were interest only because furnishing a new home and planning a wedding was an expensive period. They benefitted from growth in the value of their homes, which meant that, even though they still owed as much as they had borrowed, they released enough equity to put down a good deposit on their family homes.



T By the time they purchased their second home for £460,000, Tara had given up work to raise the family so she wasn't able to contribute to the mortgage. This resulted in the property being bought in Nick's name alone. Nick arranged a 75% repayment mortgage over 30 years. Tara doesn't get involved in the remortgage process and leaves this up to Nick to sort out.



S Paul and Sarah made an equivalent house purchase and set up the same mortgage, but under their family team approach to finances, the house and mortgage were in joint names.



Whether or not you contribute directly to the mortgage, you should be a joint owner of your home

Sarah & Paul were encouraged by their adviser to take out protection insurance in case either of them became ill and unable to work. This would help cover the family expenses and help sustain them once the emergency fund was exhausted.



Just before turning 50, Sarah found a lump and was diagnosed with breast cancer. She was lucky it was caught early, but the surgery and chemotherapy left her feeling exhausted and unable to work. She was able to claim on the Income Replacement policy once her sick pay ceased at work and she continued to receive a percentage of her salary until she had recovered and was fit enough to return to work some two years later.



They had also been persuaded to take out a critical illness policy alongside life cover. This paid out a lump sum on Sarah's diagnosis, which they used to pay off their outstanding mortgage.



Tara had the same health issue, but as her work in the home was unpaid at the time Nick arranged the mortgage, insuring Tara was not considered necessary. Luckily, they did have an emergency fund and some money they had saved for a luxury family holiday for Tara's 50th birthday. Unfortunately, Tara took longer to recover than expected and they depleted all their savings and the holiday fund.

Even unpaid workers should consider insurance against illness

Tara was keen to start saving some money for her children's future as soon as she had some spare income.

She wasn't sure what to invest in and was cautious about losing her money. A friend told her that ISAs were a good idea.



After having a look on her internet banking app she opted for a cash ISA as it would be easy to get hold of her money quickly if she needed it.



Sarah, by her mid-40s, had been back at work full-time for a few years, and she was starting to accumulate some savings in her bank account. She and Paul already had an emergency fund in place, so Sarah once again turned to her financial adviser for guidance. Sarah thought it would be a good idea to start putting some of this surplus money away to help cover the children's university fees or help them onto the property ladder.



Her financial adviser recommended she invest in a tax efficient way using stocks & shares ISA. Initially she was able to invest £10,000 a year, but after her mortgage was cleared, following the pay-out from her critical illness policy, Sarah was able to fully fund her ISA up to the maximum of £20,000 a year.

Cash savings are inappropriate for long term financial growth
LEARN TO INVEST

SMALL DIFFERENCES ADD UP



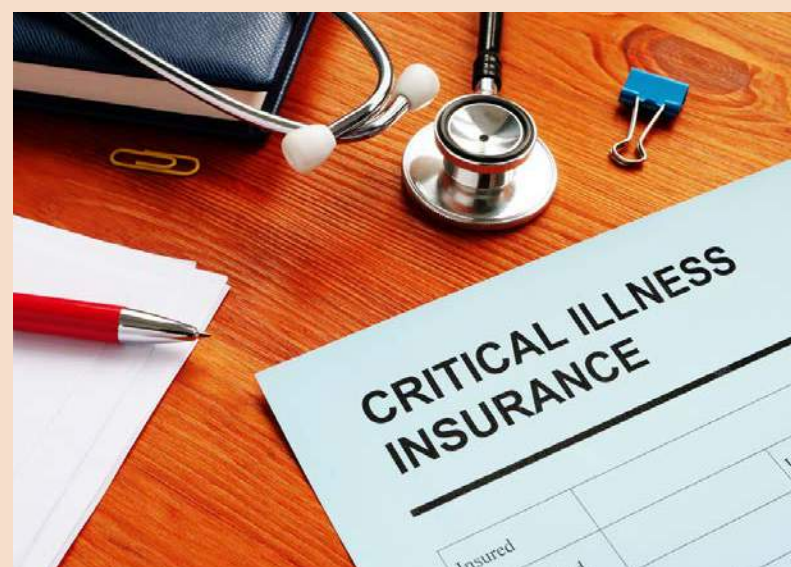
One of them sought professional financial advice



Didn't allow her pension to fall to the default option



Played an active role and stayed involved in the family finances



Took out protection insurance with critical illness cover



Was joint owner of the family home



Learned to invest for long term financial growth

Two women, same life journey, a few different choices that add up to a massive difference of **£1,000,000**

THE BIG TAKEAWAYS

1 MILLION

- The MILLION POUND difference
- Exploit pension opportunities
- Tiny differences can mount up over the years
- Negotiate a team bank account so the unpaid worker shares equally in family income
- Whether or not you contribute directly to the mortgage, you should be a joint owner of your home
- Even unpaid workers should consider insurance against illness
- Cash savings are inappropriate for long term financial growth - learn to invest

Cash Flow Modelling – Default Assumption

STUDENT LOAN DETAILS USED IN THE CASE STUDY

Repayment plan	Plan 1
Criteria	UK undergraduate course started before 01/09/2012
How much you repay	9% of the amount you earn > the threshold
Thresholds in 2020	£1,615 pm before tax & other deductions (£19,380 pa)
Interest	1.1%
When do loans get written off is	Dependent upon when loan was taken out: Between 2005 to 2006 or earlier: Age 65 2006 to 2007 or later: 25 years > April 1st due to repay

Note there are several generations of student loan schemes and they have different terms & conditions depending on when you borrowed the money. We utilised Plan 1 in our case study and the amount of debt they incurred reflects the fact that tuition fees used to be capped at £4,000 pa.

Net worth at State Retirement Age (68)

Too Nice Tara Case ended up with £996k of assets by retirement – in today's term 312k

Savvy Sarah Case had 4.1 million – in today's terms 1.3 million

£1 million improvement in net worth

WW subscription £85 pm x 38 years = £38,760

DEFAULT INFLATION / GROWTH RATES

	VALUE
Inflation	2.5 %
Savings Growth Rate	2.5 %
Investment Growth Rate	5.5 %
Property Growth/Depreciation Rate	3.0 %
Salary Growth Rate	2.5 %
Default Annuity Assumed Interest Rate	3.0 %
Default CPI	2.5 %
Default RPI	2.5 %
Default Tax Table Assumptions	2.5 %
15 year Gilt Rate	5.5 %
Nil Rate Band	2.5 %