

The Woman's Guide to Money Matters

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Women often have very different money needs than men. They frequently earn less, live longer, and—in the unfortunate event of divorce—can experience a drastic decrease in standard of living. The Center for Retirement Research at Boston College has even gone so far as to say, “The presence of a husband is the single most important determinant of the average woman’s economic well-being in her later years.”

And it doesn’t stop there. Women are less likely to actively manage their own investments or make informed investing decisions. In fact, a study conducted by OppenheimerFunds found that 62% of women don’t understand how a mutual fund works. And 76% wish they had learned more growing up about investing.

Those that do plan ahead are not particularly confident either. The same study conducted by Oppenheimer found that only 35% of women would say they are more knowledgeable about investing than they were five years ago.

Nonetheless, there has been significant improvement over the years and there is certainly light at the end of the tunnel. Even though most of the women who participated in OppenheimerFunds’ survey acknowledged a lack of investing knowledge, 67% of them had still invested for retirement. And 66% found confidence by working with a financial advisor.

To help women everywhere take charge of their financial futures, we have created a comprehensive money management and investing guide, *The Woman’s Guide to Money Matters*. Use this guide to learn

how to save more, create and follow a budget, plan for the future, and become more actively involved in your own finances.

This guide will also help you prepare for life-altering events such as death or divorce. The topics are certainly not fun to think about, but they are important to plan for nonetheless. Spending a few hours outside of your comfort zone now may help better prepare you for such an event and may save you from additional struggle down the road.

Financial fitness is, in fact, a lifestyle decision—much like a healthy diet and exercise—and you will need to set reasonable but disciplined expectations and follow through with appropriate action. Only then will you reap the benefits of a strong financial future.

So let's get started.

Setting a Budget (and Sticking to It!)

By Susan Dziubinski,
Director of Library Services

Before you start planning your financial future, you first need an understanding of your current situation. That means being honest with yourself and doing the best you can to identify your weaknesses as well as your strengths.

Break out those checkbooks, credit card statements, receipts, and paper napkin IOUs—it's time to start putting together a budget. And to do that, you are going to need to take a hard look at how you have been spending your money and what is reasonable considering your past, present, and future spending habits—and limitations.

Remember, the goal is to save and invest an appropriate portion of your income each month. So if you notice a particularly sizable figure (or one matching your monthly rent) next to the Entertainment column and a shortage in cash at the end of each month, it's probably best to re-evaluate your habits in that area and curb your spending.

But I also emphasize the word "reasonable." Don't set expectations that you cannot reasonably make. There is no sense in creating a budget that you cannot follow. The trick is to identify areas where you are spending money that you don't need to be, while leaving yourself some wiggle room for unexpected expenses and the occasional "treat yourself" moment.

And if you find yourself with no wiggle room at all—or perhaps some negative numbers at the bottom of your budget—it is essential that you learn to live within your means. This is especially true in the days of tightening credit. While that doesn't

mean cutting out essential medications, it may mean cutting out cable television. Or getting a second job to support your expenses (if in fact you simply can't rein in spending).

The goal here is to end up with extra money each month for you to build an emergency fund and, once you've done that, invest in stocks, bonds, mutual funds, exchange-traded funds, and even alternative investments so that you can build a diversified portfolio to fund your future. If you are close to retirement age and have little or no savings or investments, this may mean that you will need to make a drastic lifestyle change now to ensure a comfortable lifestyle later.

And if you have 20 or 30 years to go, don't think this doesn't apply to you. The National Savings Rate Guidelines for Individuals published by Ibbotson Associates (a Morningstar company) estimates that to replace 80% of your gross income after retirement, a 25 year old with no prior savings who earns \$60,000 a year would need to put away 10% of his or her income while a 45 year old with the same income and no prior savings would need to save 21.4%.

So what's the point? Start saving and investing early on so that you don't have to play catch up later on in life—or possibly never catch up at all. If you have kids, putting away more than 20% of your income at 45 and older (which may coincide with their costly college years) just may not be doable.

Your first priority should always be to invest in your retirement (beyond meeting your immediate

Savings Rate with 60% Replacement of Gross Income and No Past Savings

Income (\$)	20,000	40,000	60,000	80,000	100,000	120,000	
Age	25	1.4%	4.6%	6.4%	8.0%	X	X
	30	2.0%	5.8%	8.4%	10.4%	X	X
	35	2.4%	7.4%	10.6%	13.2%	14.8%	X
	40	3.2%	9.8%	14.2%	17.4%	19.8%	X
	45	4.2%	13.4%	19.4%	23.6%	26.8%	30.2%
	50	6.0%	19.0%	27.2%	33.4%	39.0%	43.8%
	55	9.6%	30.2%	43.8%	53.2%	62.0%	70.0%
	60	19.6%	62.4%	89.8%	111.2%	130.2%	146.0%

Savings Rate with 80% Replacement of Gross Income and No Past Savings

Income (\$)	20,000	40,000	60,000	80,000	100,000	120,000	
Age	25	6.8%	10.0%	12.0%	13.8%	X	X
	30	8.8%	12.8%	15.6%	17.2%	X	X
	35	11.4%	16.4%	19.6%	22.0%	23.8%	X
	40	14.8%	21.6%	25.8%	29.0%	31.0%	X
	45	20.0%	29.4%	35.0%	39.4%	42.8%	46.2%
	50	28.8%	42.4%	50.0%	56.8%	61.0%	66.6%
	55	45.6%	66.6%	79.8%	89.6%	97.0%	105.6%
	60	94.6%	137.5%	>150%	>150%	>150%	>150%

Data Provided by *The National Savings Rate Guidelines for Individuals*, April 2007

Complete the Morningstar Personal Monthly Budget Worksheet to get a full view of your financial situation and—if necessary—make changes to ensure you are putting away enough each month. And then utilize the information in this booklet and Morningstar Investment Research Center to ensure that you are putting your money in the appropriate places.

Fill out the following fields on the worksheet as best you can. When you are finished, put your budget somewhere you can view it regularly. If that means making copies for your home, office, car, checkbook, and every flat surface between you and the nearest cash register—then so be it. We will talk about this last point more in the next section of this booklet.

basic needs, of course). Then, once you have established a retirement plan, let your short- to mid-term goals drive your other investments. So if the goal is to save for a down payment on a new home in three years, you wouldn't invest in a stock fund. But if the goal is funding college education for a child that's on the way, stocks could be a good choice.

Personal Monthly Budget Worksheet from Morningstar

		Budget Amount	Actual Amount	Difference
	Example: Dining Out	\$200	\$500	(\$300)
Monthly Income	Wages and Bonuses			
	Interest Income			
	Investment Income			
	Miscellaneous Income			
	Subtotal			
	Monthly Income Withheld			
	Federal Income Tax			
	State and Local Income Tax			
	Social Security/Medicare Tax			
	Subtotal			
	Total Spendable Income			
Monthly Expenses	Home			
	Mortgage or Rent			
	Homeowners/Renters Insurance			
	Property Taxes			
	Monthly Maintenance/Association Fees			
	Home Improvements			
	Subtotal			
	Utilities			
	Electricity			
	Water and Sewer			
	Natural Gas or Oil			
	Telephone (landline & cellular)			
	Subtotal			
	Debt Payments			
	Credit Cards			
	Student Loans			
	Other Loans			
	Subtotal			
	Health and Medical			
	Insurance (medical, dental, vision)			
Out-of-Pocket Medical Expenses				
Preventative Care (gym, yoga, etc.)				
Subtotal				

		Budget Amount	Actual Amount	Difference
	Example: Dining Out	\$200	\$500	(\$300)
Monthly Expenses (continued)	Food			
	Groceries			
	Dining Out (pay close attention to this one)			
	Subtotal			
	Family Obligations			
	Daycare/Babysitting			
	Allowances and Other Regular Child Expenses			
	Subtotal			
	Transportation			
	Car Payments			
	Gasoline			
	Insurance			
	Auto Repairs and Maintenance			
	Other (tolls, public transit, taxis)			
	Subtotal			
	Entertainment/Recreation			
	Cable TV/Movies			
	Internet and Other Computer Expenses			
	Hobbies			
	Monthly Subscriptions (magazines, etc.)			
	Vacations (monthly figure)			
	Subtotal			
	Pets			
	Food			
	Grooming, Boarding, Pet Insurance			
	Subtotal			
	Miscellaneous			
	Clothing			
	Household/Personal Products			
	Gifts and Donations (+ holiday spending)			
	Grooming (haircuts, makeup, etc.)			
	Other Miscellaneous Expenses			
Subtotal				
Total Monthly Expenses				
Surplus or Shortage	Total Spendable Income - Total Expenses =			

How to Set Up an Emergency Fund

By Susan Dziubinski,
Director of Library Services

If you find yourself living paycheck to paycheck or scrambling to make minimum payments on credit cards, then probably two things are happening: You haven't committed to a budget, and you don't have an emergency fund in place.

Budgeting gets a bad rap most of the time; it's actually liberating. By going through the detailed process of tracking where your money goes, you can take control of how you're spending your hard-earned dollars.

If you're not happy with where your dollars are going, take action to reallocate how much you spend per category. If you need ideas of how to trim expenses, follow the 30-day plan included in this booklet.

What's an Emergency Fund?

Setting up an emergency fund is the first step toward building a solid financial plan. An emergency fund is a money market or savings account in which you keep a specified amount of money to cover future expenses. You don't touch this money unless it's a real emergency—say you lose your job, you can tap into the emergency fund to cover your expenses as you look for work.

How Much Should You Keep in the Emergency Fund?

The amount you hold in your emergency fund will vary over time. At first, aim to keep enough to cover three months' worth of expenses. If you are used to spending every dime, it will take perseverance to tuck away money from each paycheck to stockpile your emergency fund. But it's

well worth it. When you get this money saved, you should give yourself a pat on the back because you've just taken the first step toward financial independence. Just the fact that you are now saving on a regular basis is a financial milestone.

The general rule of thumb on how much to save in an emergency account is enough to cover three to six months' worth of expenses. In the wake of an economic recession, you may want to increase this to nine months' or even a year's worth of expenses to account for prolonged unemployment.

How Do You Calculate How Much to Save?

One easy way to know just how much you are spending is to take your take-home pay and subtract how much you are saving. The rest is how much you are spending. Multiply that by the number of months you want to cover through your emergency fund.

For example, let's say I make \$50,000 in gross pay (no taxes or other amounts withheld). After taxes and other deductions, my take-home pay would be about \$40,000 a year or \$3,333 a month. To cover three months' expenses, I would need to save \$10,000 in this example. For six months, it would be \$20,000, for nine months it would be \$30,000, and so on.

If you are serious about taking this important step, figure out exactly how much you can save each month and how long it will take to accumulate your target amount. In the above example, an individual looking to accumulate three months' worth of

expenses in the next year would need to save about \$830 a month to amass \$10,000.

Should You Use a Home Equity Line of Credit as a Part of Your Emergency Fund?

For those of you with higher salaries and therefore greater emergency-fund requirements, you may choose to keep \$25,000 to \$50,000 in a money market fund and use a home-equity line of credit for any additional amounts needed to cover up to a year's worth of expenses. Just make sure you have a healthy amount of cash saved in very liquid accounts because you wouldn't want to risk losing your house if you couldn't make a payment on your line of credit.

A New Financial You in 30 Days

By Susan Dziubinski,
Director of Library Services

I said we would talk more about turning sound financial decision making into a lifestyle—so here it is. This next section is going to help jump start the new financially savvy you.

Shed pounds. Find inner peace. Conquer phobias.

Self-help gurus say we can solve our problems if we break them down into manageable pieces. Segment dilemmas into daily 15-minute tasks, they urge, and before you know it, we'll have our arms around the once-overwhelming matters.

In that spirit, here is a 15-minute-per-day (OK, some are a little longer), 30-day plan for gaining financial control.

Day 1

Print this column and tack it up next to your computer (everywhere you put your budget would be a good start) as a reminder of your 30-day plan. Refer to it each day to complete your 15-minute project.

Day 2

Create a financial calendar. Record the dates when each of your bills are due and how much you owe on each. If you haven't already completed your Personal Monthly Budget from Morningstar, now is a good time to do that. Then set a date each month in your appointment book to balance your checkbook or reconcile your online payments.

Day 3

If you notice a sizable figure next to the "Debt Payments" column on your Personal Monthly

Budget, this day is for you. Seek out lower-interest-rate credit cards. You can search for the best rates at Bankrate.com. If you don't carry a balance, try not to ever have to and make sure that you are carrying no-fee credit cards. That monthly or yearly expense can really add up.

Day 4

Set aside some time to read up on investing. Check out the Help and Education Center in Morningstar Investment Research Center. If your library has remote access, you can even do this from home. In particular, read the "Investing for Beginners" article and move on to specific investment strategy or retirement-planning articles as you feel more comfortable.

Also ask your librarian for book ideas. We like *Personal Finance for Dummies*, *Investing for Dummies*, and our very own *Morningstar Guide to Mutual Funds*.

Day 5

Get reacquainted with your retirement plan. What are your current investment options? Have you made the best choices? Who is your beneficiary? How much are you contributing to your plan and is it at least what your employer matches (if they do at all)?

Maximize your plan by reading the "Retirement Planning" article in Morningstar Investment Research Center. Then, input your investment holdings in the Morningstar Investment Research Center Portfolio X-Ray™ tool at your local library. Print the results.

Day 6

If you already have an emergency fund in place and can afford it, ratchet up your retirement-plan contribution. Beginning in 2009, you can contribute up to \$16,500 per year (\$22,000 if you are age 50 or older) to a 401(k) or 403(b) plan. At least contribute as much as your employer's match—that's free money, after all.

Day 7

Create a back-of-the-envelope financial plan that you'll flesh out with more details next month. (Yup, this will take more than 15 minutes.) Think in broad terms for now. Dare to dream. Where do you want to be in the next five years, financially? How about 10? Make an appointment with yourself next month to determine how you are going to get there and see the "Closing the Gap on the Wage Divide" section of this booklet if asking for a raise or a promotion is part of your strategy.

Day 8

Share what you're learning. Give a copy of this booklet to a friend, and tell her you're on day eight of the plan and that your money tension is slipping away.

Day 9

By now, you should have input your investments (if you have any) in the Morningstar Portfolio X-Ray tool. You may have even explored some of its features. Dedicate this day to utilizing the Portfolio X-Ray Interpreter feature to determine if your asset allocation is an appropriate mix for you. The feature will let you know if you are being aggressive

or conservative as well as provide an appropriate time horizon for your current portfolio.

Compare the appropriate time horizon with your actual time horizon. Are you being aggressive enough? Remember, this is one area that women tend to avoid and why so many of us fall short on our retirement goals. If you have more than 10 years until retirement, stop investing like an 80 year old. The opposite is true as well.

Day 10

Act on what you have learned and identify your core investments using Morningstar Investment Research Center. Input your investments' ticker symbols and pay close attention to Morningstar Ratings and commentary as you go down the list. If you have any questions about how to utilize Morningstar Ratings, commentaries, or data, consult the Morningstar Investment Research Center User's Guide in the Help and Education Center.

Day 11

Unmask your foreign exposure. You may own foreign stocks without even knowing it. Click on the World Regions section in Portfolio X-Ray to view your exposure to foreign markets and see what Morningstar has to say about it in the X-Ray Interpreter section.

Day 12

Ponder bonds. Bonds may not be as flashy as stocks, but they can play meaningful roles in a portfolio. See the Bonds overview in the Specialized Investments section of the Help and Education Center.

Day 13

Now that you have a pretty good understanding of your options and have fully analyzed your portfolio, start filling in the gaps. Visit Morningstar Investment Research Center and click on Recommendations for each category: Stocks, Mutual Funds, Exchange-Traded Funds.

Make your picks and execute.

Day 14

Ditch underperformers in your taxable accounts and offset capital gains with losses. If you sell a stock for less than you paid for it, the difference counts as a capital loss. The silver lining to such losses is that they cancel out capital gains, lowering your taxes overall. If you have some investments you could live without (or would prefer to), unhinge them at the end of the year and utilize the tax benefits.

Day 15

If you have children, spend today developing or fine-tuning your college savings plan. There are several options to choose from in this area, which you can investigate in the “College Planning” article in the Investing Goals section of the Help and Education Center. If you have not even begun to think about saving for your children’s education, now is the time to start.

Day 16

Update your financial files. Again, financial fitness is a lifestyle and part of that process is staying organized. Invest in a fireproof filing cabinet with a lock and a safe deposit box. Start keeping copies

of important financial records and other important documents neatly organized and labeled inside the filing cabinet (not on top of it). Keep the originals in your safe deposit box.

Birth certificates, social security cards, wills, and mortgage payoff certifications are a few of many things you will want keep under lock and key.

Day 17

If you have not done so already, spend a few minutes today in the Investing Classroom in the Help and Education Center of Morningstar Investment Research Center. Each course takes about 15 minutes to complete and will help you retain some of the information you’re learning. There is a short quiz at the end of every course.

Keep taking these courses well after you have finished this 30-day plan. They will help support your new financially secure lifestyle as well as keep you updated with new and relevant information.

Day 18

Establish a regular investing schedule. Decide when you’re going to add to your investments—weekly, monthly, or quarterly. Better yet, set up an automatic investment plan with your bank, financial advisor, or directly with a mutual fund company.

Day 19

Schedule portfolio checkups. Re-examine your investments at least quarterly to make sure that they’re doing the job and that there have been no major changes. Take the time to visit

Morningstar Investment Research Center regularly to get performance updates, check up on Morningstar Ratings and Morningstar Analyst commentary as well utilize the Portfolio X-Ray tool.

Day 20

Spend this day drilling into the Closing the Gap on the Wage Divide section of this booklet. Spend some time thinking through your career strategy and where you would like to be (in terms of your job and earnings) five, 10, 15 years from now. If having children is part of your future, see the Six Tips for Part-Time Workers (Full-Time Parents/Caregivers) section of this booklet and determine how that may or may not fit in with your career goals.

Day 21

Plan for worst-case scenarios. If you are married, read the Advice for the Soon to Be Divorced and What to Do When You're Widowed sections of this booklet. But both married and unmarried women should come up with a plan to deal with sudden disability or even death. Do you have a durable power of attorney? Have you drawn up a will to determine where your assets will go if you pass? And if you have considerable assets, do you need to establish a trust to avoid probate court?

See the What to Do When You're Widowed section of this booklet and, if you are married, determine how you would manage your finances if your spouse were to suddenly pass away. What about if you were to pass away? This grim and uncomfortable thought process will help ensure a strong financial future for you and your family. Do

you and your spouse have life insurance? Have you written a will? Do you know where all of your financial documents are (see Day 16)? Does your spouse? Remember, it's equally important for your spouse to be prepared for worst-case scenarios—and to know where to find important documents.

Day 22

Plan for your parents. Check out the Taking Care of Your Parents section of this booklet and put together a comprehensive plan. Make sure to include your parents in this process and start honing in on their short- and long-term financial needs.

Day 23

Introduce a child to money matters. If they are old enough to comprehend speech, they can benefit from you talking about money. If not, start with a piggy bank. As early as you can, sit them down and teach them the importance of budgeting, saving, and investing. You can even make it into a game if you have to and certainly—over the long term—do this for longer than 15 minutes.

Day 24

Do you have an emergency fund? Read the How to Start an Emergency Fund section of this booklet and open a designated savings or money market account. You can do this online with many banking institutions—it takes only a few minutes and you can set up automatic transfers so you don't even have to think about making contributions. If you already have an emergency fund, determine if you have enough put away. In the past, we have recommended three to six months' of living expenses as a benchmark; however, in an economic

downturn we recommend up to nine months' or even a year's worth.

Day 25

Pay with cash or cash equivalents whenever possible. While there is certainly nothing wrong with having credit cards (quite the opposite actually), the point is to get out of the habit of using credit for everyday purchases. When you think about it, do you really need to finance a pack of gum, a magazine, or last-minute meal preparations at the grocery store? Of course not! But if you are using credit to pay for such items (among other large purchases) and you carry a balance at the end of the month, you are doing just that—paying interest on a pack of gum! Instead, use your debit card, checks, and cash to pay.

Day 26

Spend today investigating new ways to save money. Start packing your lunch instead of buying, eat out less (even if you don't have to), explore free entertainment, and start using coupons. These simple little efforts can add up to significant savings, which you could then apply to your emergency fund or investment plan.

Day 27

Brush up on your insurance policies. We touched on this on Day 21, but the topic really does require some extra attention. You will want to determine if you have an appropriate level of coverage, that all of your assets are covered or accounted for (home, vehicle, health, life), and that you are not overpaying. Don't skimp on quality for a better deal, but don't pay more than you have to either.

Depending on your situation, you may even want to explore some less-common options, such as unemployment or disability insurance, or umbrella coverage.

Day 28

Join a saving- or investing-related blog. There are countless options on the Web. The point is to remain active—again, like working out—and getting in the habit of making fit financial decisions. Even if you don't contribute to a blog, just hear what others have to say and remain engaged well after Day 30.

Day 29

Keep the ball rolling and start getting in the habit of reading the business or finance section of your newspaper and online news source. Stay on top of current trends in the economy, job market, legislation, industry information, etc. All of these things influence the performance of your investments and your long-term financial future.

Day 30

You did it! You are well on your way to taking control of your finances and building long-term wealth for you and your family. Now what? Cut out the last page of this booklet—The POWER Poster—and tack it up in your office, kitchen, and everywhere else you will see it on a regular basis. Use it as a constant reminder of your new financially fit lifestyle.

Closing the Gap on the Wage Divide

By Susan Dziubinski,
Director of Library Services

“Women Don’t Ask.”

That’s not just an assertion; it’s the title of a book written by Linda Babcock and Sara Laschever. And while I am not necessarily advocating that you go out and buy it, the authors have discovered some pretty interesting statistics about women and negotiating. They have even been quoted by Dr. Phil.

So what are they saying? According to their publisher’s Web site (and DrPhil.com), women are more than twice as likely to feel “a great deal of apprehension” about negotiating. Men initiate negotiations about four times more often than women. Women avoid negotiating with car dealers like it’s the plague—so much so that they are willing to pay an extra \$1,353 per car to avoid it. Men, say the authors, associate negotiating with sports and winning while women associate it with “going to the dentist.” And 20% of women say they never negotiate at all even though they know it is beneficial.

What’s the big deal? Again, according to their book, not negotiating your starting salary can cost you more than \$500,000 by the time you are 60.

What can you do about it? Don’t be afraid to ask for more—especially if you know you deserve it. This doesn’t mean you have to march into your boss’ office demanding a raise. But don’t assume anyone is itching to give you more money. You often have to ask.

To help you earn to the fullest of your potential (and add some weight to the income side of your Personal Monthly Budget Worksheet), here are some tips to help you conquer your fear of negotiating, ask for what you want, and own your career.

1. Negotiating isn’t fighting.

Don’t associate negotiating with confrontation and conflict. And don’t assume that being a tough negotiator will make people not like you. In fact, think the opposite of that.

2. Know your strengths.

You don’t have to keep a list or anything, but it’s never a bad idea to be aware of your personal strengths. If you are a rockstar project manager, know it—and believe it. Why? Because when you are asking for something (like a raise or promotion), no one is going to believe you if you don’t believe yourself.

3. Celebrate key accomplishments.

OK, this one you should put in a list. Every chance you get, keep a record of your accomplishments and don’t be afraid to let your manager know about it.

4. Be known (not just known of).

There is a difference between knowing someone’s face from their employee intranet photo and actually knowing them. Get to know as many people as you can within your department or company. This will help you recognize opportunities to move up as well as increase efficiency in your current position. If you work for a large company, this step is vital.

5. Understand what's reasonable.

Even if you deserve a raise, it's probably not a good idea to ask if your company is in the middle of layoffs. Timing is often a big factor in life and having a good sense of it will certainly help your cause.

6. Follow the process.

It's not always in your boss' hands. He or she could want to pay double your current salary, but it won't go anywhere if there is not budget for it—or if HR has placed a freeze on salaries. Know the steps to get what you want and understand that things don't happen overnight. Impatience could be perceived as ungratefulness—and that's not what you want when you're asking for money.

7. Pursue what you want (and deserve).

All of these things considered, don't be afraid to ask (and negotiate) if you deserve it. If you work hard, your managers knows it, decision-makers know who you are, what you're asking for is reasonable, and the timing is right—ask!

Advice for the Soon-to-Be-Divorced

By Susan Dziubinski,
Director of Library Services

A few years ago, a friend of mine who never had much interest in what I do for a living suddenly began asking me a lot of questions. What do I know about stocks, she wondered. Can I give her the name of a good financial advisor. Could I take a look at the funds in her 401(k) plan. I later discovered that she and her husband of 18 years were divorcing. Those questions were her way of trying to get a handle on her financial future during perhaps the most vulnerable time of her life.

My friend had the right idea. During a divorce, you need to try to put emotions aside. Divorce can be a big economic setback, and that's not really what you're thinking about when you're in the middle of it.

But that's precisely when you need to be thinking about your finances—before the ink dries on the divorce decree. Making decisions based on emotion can threaten your finances for the rest of your life. A study by the Social Science Research Council in New York City found that one year after a divorce, a woman's standard of living falls about 30%, on average, while a man's rises 10%.

Here are some steps for getting started.

Inventory both your individual assets and those you own jointly.

Make copies of everything. Include statements from savings accounts and investments, vehicle titles, deeds of record for real property, even frequent flier miles. And don't forget about the contents of your safety deposit box.

Open your own savings account and obtain your own credit.

Your instinct may be to channel half of the money from your joint savings account into your personal one. It is, after all, your money too. Yet a less-adversarial approach might be more effective. Don't inflict financial hurt on your spouse as revenge for emotional hurt. Rather, build your savings account with some of your own income and wait for a mediator or the court to fairly divide all the assets.

When applying for credit, use your own full name (Mrs. Jane Doe), not your spouse's name (Mrs. John Doe). And if you and your spouse already have joint credit, check your credit history for any unbeknownst damage. Request a copy of your credit history (which generally costs less than \$20 each or under \$50 if you order all three reports at once) from one of the three major credit bureaus either over the phone or online: Experian (888-397-3742), Trans Union (800-916-8800), or Equifax (800-685-1111).

You are also entitled to a free yearly credit report from each of these agencies. To learn more as well as order all three reports online, you can visit: AnnualCreditReport.com

Divvy up debt fairly.

Include mortgages, home equity loans, credit card debt, and any auto or student loans. Divorcing couples can pay off the debt, trade debt for assets ("I'll pay the car loan, but I get the car"), or split the debt.

Get your share of benefits.

Sometimes you don't really realize all the pieces, especially the company benefits, that may not be there after the divorce. First, there are pensions and retirement plans. There may also be lucrative company stock options or other forms of deferred compensation. Ramp up your own 401(k) plan contribution, if possible.

Then there's health, life, and disability insurance. Your children may be covered under your spouse's insurance plan, but unless you can obtain coverage from your own employer, insurance may be a whole new set of expenses for you each month.

Be careful how you split investments.

Don't just look at dollars, but the vehicles the dollars are invested in. And make sure that you don't end up with illiquid shares, tax nightmares, high-cost investments, or too-risky ventures while your spouse takes the most-liquid shares and the Treasury bonds.

Further, choose the investments that will work best for your future. Things are going to change radically and you'll need to rethink your financial goals. What's your future earnings potential compared with your spouse's? What do your retirement savings look like? Are your investments right for your goals and your risk tolerance? To help answer these questions, consider consulting a financial advisor.

Change beneficiaries on all wills, insurance plans, etc.

Some states say that divorce severs a will, but it never hurts to make the change anyway.

Complete a Personal Monthly Budget (like the one included in this booklet).

On one end of the ledger, list all monthly cash-flow needs, such as rent, insurance, and debt payments. Think about new expenses you might incur, such as child-care costs or the loan payments on a new car. On the other end of the sheet, include all debt. This will give you a good idea of your needs and wants—and whether you can afford them.

What to Do When You're Widowed

By Susan Dziubinski,
Director of Library Services

My dad died when I was six years old. I was sitting on the edge of my parents' bed when my mother, then 41, told me the news. I don't remember if I cried, but I do remember what I said: "Are we going to be poor?"

Finances aren't always the first thing that crosses a woman's mind after losing her spouse (though my question may have been a tip-off to my eventual career choice). But one Morningstar client says the "shell shock of finance after [a] death" is something all widows eventually face. "You want someone else to handle things while you heal," notes Kerry Hannon, author of *Suddenly Single: Money Skills for Divorcees and Widows*. Unfortunately, finances are yet another thing with which widows must deal.

First Steps

So how does a new widow get a grip on her financial situation? Start with the present. Shortly after a partner's death, widows must examine their immediate cash needs, such as for funeral and burial costs, as well as for regular expenses over the next month or so. Be sure that you have enough cash that you can quickly tap to cover costs.

Next, take inventory. Gather all paperwork regarding your and your spouse's life insurance policies, IRAs, retirement plans and pensions, trusts, stock options, brokerage and mutual fund accounts. Retitle all accounts so that they're in your name. Change beneficiaries as necessary. Update your will. And don't forget to re-examine your cash

situation to make sure you can cover expenses going forward, or whether you need to cash in an investment or two.

Low on Cash?

When selling securities, it's important to avoid or at least minimize capital gains taxes. If you have to make changes, you want to make changes that have the least impact.

Minimizing your capital gains taxes can be tricky; it's best to work with an accountant or financial planner on deciding which securities to sell first, and what the tax implications are of your sales. Sell smartly and you could end up with extra money.

Taking Action

You have enough cash to meet your expenses; you've put your papers in order, and everything's in your name. It's time to tackle your long-term finances. How much will you need to cover your annual costs? Will your current investments provide for you for the rest of your life?

I have said it once, but I will say it again: Input all of your investment holdings in the Morningstar Portfolio X-Ray tool in Morningstar Investment Research Center. Really dive into your investments and get a good understanding of how your portfolio has been performing. Look for indications of how it might perform in the future (by reading analyst commentary and paying close attention to Morningstar Ratings) and if some of your investments aren't cutting it—utilize the databases

stock, fund, and ETF screeners to find ones that will.

And once you know all about your current investments and how much you'll need to meet your goals, consider paying a one-time visit to an advisor to make sure you're on track. Maybe you could be paying fewer taxes. Or perhaps you could get by with less insurance. An advisor can help you find out.

Whether or not you consult an advisor, take time to educate yourself about your investments and financial planning. There are several articles in the Help and Education Center of Morningstar Investment Research Center.

Finally, you may find that you don't want to go it alone, but that you don't want to work with an advisor, either. Consider joining an investment club at your local library. Or confiding in your kids. It can be difficult to invest by yourself.

Taking Care of Your Parents

By Susan Dziubinski,
Director of Library Services

If you aren't a caregiver today, you probably will be. Eighty percent of all family caregivers are women, according to a survey conducted by the National Family Caregivers Association. And the Family Caregiver Alliance estimates that the average woman can expect to spend 18 years caring for an elderly parent.

In addition to the emotional, physical, and psychological strain of caring for a loved one, there's the financial strain of eldercare. Nursing-home costs can range from \$35,000 to twice that per year. Assisted-living centers can demand \$2,000 per month. And home-care workers earn from \$10 to \$14 per hour. Those years, months, and hours can eat through a nest egg in no time.

Here are some of the money tasks caregivers may tackle.

Getting to Know Your Parents' Assets

Create a spreadsheet of your parents' assets and liabilities to determine what expenses your parents can cover, and what may need to be sold to cover them. To do that, locate all important documents—bank accounts and investment records, insurance policies, retirement-plan benefits, and mortgage and other loan information.

Next, make sure there's a will. If your parents have substantial assets, you'll also need to think about estate planning. Consult an advisor to help sort out estate-planning issues.

Draw up a Durable Power-of-Attorney Document

The time may come when your parents may no longer be capable of making their own financial decisions. Without a durable power-of-attorney document, your family may end up in court to appoint a guardian to manage your parents' financial affairs.

If your parents draw up a durable power of attorney before becoming incapacitated, however, they can appoint the guardian of their choice. (Along with this, your parents should consider executing a living will, which allows them to specify whether they wish to be kept alive by artificial means.)

Consider Claiming Parents as Dependents

If you're providing a substantial portion of your parents' support each year, you may be able to claim them as dependents on your tax return and possibly get a tax deduction. Check with your accountant.

Determine Whether Your Parent Qualifies for Aid

If your parents live on a limited income, they may be eligible to receive services provided by your local Area Agency on Aging. Such services may include home health-aide services, transportation, home-delivered meals, and, in some instances, legal assistance.

Tap into the House

Parents can generate needed cash from their home by selling it to you or your siblings, then leasing

it back from you for life. Here's how it works. You give your parents a down payment and send them a mortgage payment each month, and your parents pay you part of that back as rent.

Another way to generate money from a home is taking a reverse mortgage, also called a home-equity conversion. Reverse mortgages allow your parents to tap into the equity that they've built. Quinn says these loans work best for parents age 75 or older with small incomes, and can help finance home health care. A lender makes your parents a loan against the value of their house, based on their age and equity in the house. Your parents can receive monthly checks, a lump sum, or a credit line that they can tap whenever they choose.

Don't Ignore Your Own Finances

To fulfill their caregiver roles, women often leave the workforce or opt for more-flexible schedules, thereby reducing their retirement-plan contributions. Don't forget to regularly invest whatever you can, re-evaluate your goals, and plan for your own future. You do have one, no matter how grim things may seem.

Seek Help

There are a number of resources for caregivers. *The Resourceful Caregiver*, written by the National Family Caregivers Association, includes listings of hotlines, helplines, newsletters, and support groups.

Online, visit the Eldercare Locator to find local support resources. A number of states have state-funded caregiver support programs. (Interestingly, New Jersey uses state casino revenues to fund its program.) Government agency sites of note include the Administration on Aging, the Health Care Financing Administration, and Social Security Online. There's also the American Geriatrics Association, and the National Institute on Aging. Finally, there's the always-useful AARP site.

Six Money Tips for Part-Time Workers (Full-Time Parents/Caregivers)

By Susan Dziubinski,
Director of Library Services

You just can't continue to work full-time. Maybe you want to spend more time with your young children. Or you need to care for an ailing parent.

You've run the numbers and decide, yes, you can take the income hit that goes along with moving from full- to part- (or no-) time. But consider these "extras" when making your decision, too. Some smart maneuvering could mean extra annual income.

Examine Benefits

Work enough to get full-time benefits, if possible. Some companies provide full benefits to employees working fewer than 40 hours per week.

You may be able to maintain health-care coverage, life insurance, and 401(k) benefits, which can translate into tens of thousands of dollars in compensation for you and your family each year.

Weigh Your 401(k)

It's tempting to replace some of your lost income by contributing a smaller percentage of your part-time wages to your retirement plan. Resist, if you can. Or at least contribute up to your employer's match—after all, that's free money.

Remember: By working fewer hours, you're already contributing less to your 401(k), unless you ratchet up the percentage taken out of every check.

Consider Your Employer Stock & Options

According to the National Center for Employee Ownership, up to 20 million employees participate in broad stock option or stock purchasing plans

provided by their employers. Making uninformed decisions about these sometimes-complex forms of compensation can cost you plenty.

And beyond that, changing your work status from full-time to part-time might affect when or if your stock options and other related benefits fully vest. If that's the case and you're near a vest date, consider deferring your change to part-time status until the next batch of options vests.

Know Your Employer's Policies

Consider a leave of absence rather than going part-time or quitting entirely.

Under the Family and Medical Leave Act of 1993, for example, eligible employees can take up to 12 weeks off to care for a spouse, child, or parent with a serious health condition. They're guaranteed full benefits (some companies also offer full pay) during the leave, as well as job protection and no loss of seniority upon their return. Moreover, some companies allow you to take what's called a reduced leave, which means you can spread out the leave over an extended period. For example, you could work four rather than eight hours a day for a period of time.

Further, your employer may offer an unpaid leave of absence for an extended stretch. During that time, your company may even continue to provide medical benefits and allow you to leave your 401(k) plan and options intact. Ask your company's human-resources personnel about this option.

Finally, pursue nontraditional work schedules with your employer. Work no longer has to mean Monday through Friday or nine to five.

Build a “No-Time” Fund

If you’re going part-time, can you envision needing (or wanting) to quit entirely at some point, at least for awhile? If so, plan for it.

But don’t sacrifice your retirement account for your no-time fund. Instead, cut back on expenses, even more than you have already. And place the money in a short-term reserve, like a money market account or ultrashort-bond fund.

Keep on Top of Your Industry

You may want or need to rejoin the full-time ranks again, and if you don’t stay informed, you’re limiting your future earning potential. Remain an active member of trade organizations in your field—if you aren’t an active member, become one. Read industry journals and related publications. Attend conferences as your budget (or your employer’s) allows. Don’t get rusty.

Special Article: Where to Turn for Emergency Cash

By Christine Benz,
Director of Personal Finance
and Editor of *Morningstar*
PracticalFinance

The triple-whammy of the housing-market crunch, skyrocketing energy prices, and rapidly rising grocery bills has hit even financially secure households hard. But the convergence has been a nightmare for consumers who were on shaky financial footing to begin with. As a result, an increasing number of individuals are maxing out credit cards, tapping their 401(k) plans, and taking out reverse mortgages just to make ends meet.

Some of these options are decidedly better than others. So if you find yourself in a similar financial pinch—bills to pay but no available cash to do so—it's worth taking a moment to assess your options.

Here's a discussion of some of the options available for those in need of emergency cash. Though individuals' own circumstances will affect the attractiveness of these sources of financing, I've ranked them from the ones that are generally the most palatable to the least attractive.

1. Your Own Emergency Fund/Short-Term Securities

I know, the premise of this article is that an individual doesn't have a rainy day fund. But no article about financial emergencies would be complete without emphasizing the importance of amassing such a fund to cover unforeseen expenses. If you're aiming to get your financial house in order, putting your emergency fund in place is job one (after you pay off any debt, that is). And if you have an emergency fund, remember: This money is to be used only in true emergencies (when the only

alternatives are to go into debt or tap your longer-term investments).

Your emergency fund should consist of highly liquid securities, such as CDs or a money market account or fund. (Beware of higher-yielding money market alternatives, some of which blew up earlier this year.) Traditional financial-planning wisdom holds that your emergency fund should be large enough to cover three to six months' worth of expenses. However, I think those with higher salaries or those concerned about job security should nudge that amount closer to a year's worth of living expenses. (It typically takes longer to find a job in higher salary ranges than it does lower-paying positions.)

2. Longer-Term Assets in Taxable Accounts

If you've depleted your emergency fund (or never had one to begin with) and still need cash, your next step should be to turn to any taxable stocks, stock funds, bonds, or bond funds. Remember, though, that if those securities have appreciated since you bought them, selling them is apt to jack up your year-end tax bill. (On the plus side, long-term gains are currently taxed at a pretty attractive rate—15% for most investors and 0% for those in lower income-tax brackets.) Moreover, if you're selling a mutual fund you have owned for a very short period of time, you may face a redemption fee when you sell.

3. Roth IRA

It's never a great idea to tap your retirement assets unless you absolutely need to, but the Roth IRA

does offer more flexibility than a traditional IRA, and that flexibility can come in handy if you find yourself in a financial bind.

You can withdraw any Roth IRA contributions (the amount you put in, not investment earnings) at any time, without having to pay penalties or tax. (After all, you contribute aftertax dollars to a Roth, so you've already paid taxes on that money.)

Withdrawals from Roth earnings, by contrast, may be subject to taxes and penalties unless you're age 59 1/2 or meet certain other criteria. Read this article for a complete rundown on Roth IRA rules.

4. 401(k) Loan

Companies are making it pretty easy to borrow from their 401(k) plans—maybe too easy, in my opinion. Some have gone so far as to offer debit cards that allow those who have already applied for loans to tap their savings.

It's easy to see the appeal. You're required to pay the loan back—usually within five years—with interest, but the interest gets paid back into your account, not to a bank. The interest rates can be reasonable, often a few percentage points above the prime rate.

On the downside, borrowing from your 401(k) plan short-shrifts your retirement savings. Not only will you have less money working for you in the market, but having to pay the loan back with interest also means you're less likely to be able to make new contributions to your account. Loans from your 401(k) are particularly perilous if you lose your

job. If that happens, you'll be required to pay the loan back right away, usually in 90 days. If you've sunk that borrowed money into some other asset, you'll really be stuck.

5. Home Equity Line of Credit

Tapping your own assets is invariably a better way to scare up cash than borrowing from someone else. But if you find you must take out a loan, using a home equity line of credit is one of the better ways to go about it. Essentially, you're borrowing against any equity you've built up in your house.

On the plus side, interest rates on HELOCs may be reasonable, particularly if you've got a good credit rating, a fair amount of equity in your home (which also makes it less likely that you'll default), and aren't taking out a huge loan. The biggest advantage to the HELOC versus other loans, however, is that all or part of your interest will be tax-deductible. For these reasons, I recommend that nearly all homeowners secure a home equity line of credit while they're employed and can negotiate terms that are favorable to them; even if you never need to use it, it's a good safety net in case of emergencies.

On the downside, lenders are feeling quite risk-averse these days, so if you're not a perfect borrower, you could be asked to pay an unfavorably high interest rate. And while it's less likely today than it was a few years ago, there's also the possibility that you could end up borrowing more than you actually have equity in the house; should you need to sell in a hurry, you'd have to cough up the difference.

6. Traditional IRA

Traditional IRAs, as I noted above, offer less flexibility than do Roth IRAs. Unless you fit certain criteria, you'll owe taxes and/or a 10% penalty if you need to take an early withdrawal from a traditional IRA if you've made deductible contributions. Unlike the Roth, you've not yet paid taxes on these contributions, so it only makes sense that you'd owe Uncle Sam when you pull the money out. If you've made nondeductible IRA contributions, you'll owe the 10% penalty and tax on any investment earnings if you take an early withdrawal, unless you fit certain criteria.

7. Reverse mortgage

Reverse mortgages have become popular over the past decade, as many seniors have found themselves short of income but long on home equity. Reverse mortgages allow homeowners (usually those over age 62) to receive a pool of assets that represent their equity in the home. The homeowners don't have to repay the loan as long as they're in their homes, but when they do leave their homes, the borrowed amount, plus interest, is deducted from the home's value.

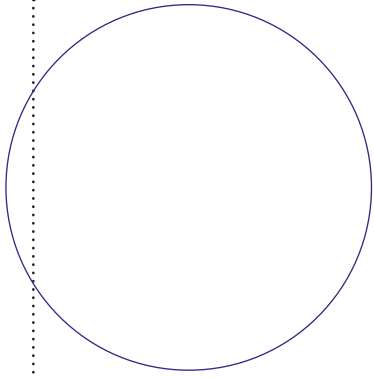
As reverse mortgages have gotten more popular, they've prompted greater scrutiny and many more reputable lenders have gotten into the business. Still, rates can vary widely, so if such a loan appeals to you, you'll need to shop around. Also, it pays to understand the various types of reverse mortgages. For a good overview, visit the Federal Trade Commission's Web site.

8. Credit Cards

This option is pretty straightforward, and usually not a great idea for reasons that most consumers well understand. True, some consumers have been able to play credit cards like a fiddle, shifting balances among cards with ultralow teaser rates and incurring little in interest along the way. If that's you, more power to you. For the rest of the world, credit cards are the single easiest way to wreck your financial standing. Not only are rates high, but credit-card companies have every incentive to keep you paying for as long as possible. Thus, the minimum payments they require don't make a dent in your loan's principal.

9. 401(k) Withdrawal

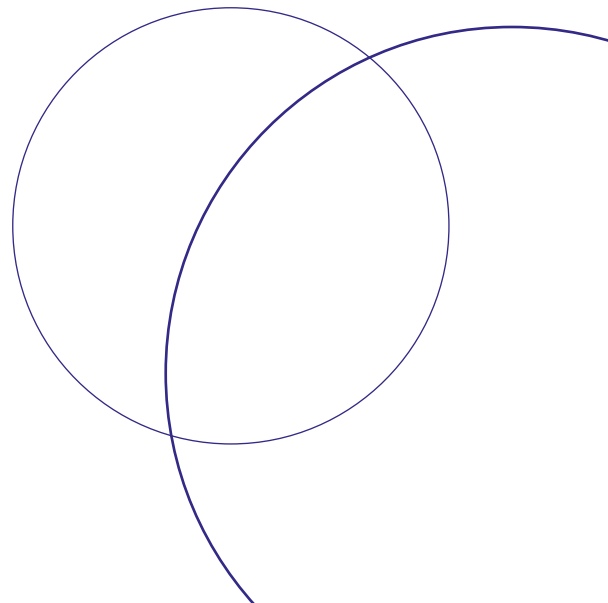
Most companies will let employees under age 59 1/2 take a withdrawal from their 401(k) plan if they have exhausted all other sources of financing and have an extreme need—for example, to pay unreimbursed medical expenses or to keep their home from going into foreclosure. However, such a withdrawal comes with some major strings attached. Depending on your circumstances, you'll have to pay income tax on the withdrawal and you may also incur a 10% early distribution penalty. And while you don't have to pay that money back (unlike a 401(k) loan), by not doing so you heighten the risk of falling short in retirement. In short, think of this option as strictly a last resort.



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