

Financial Planning Considerations *through Different Life Stages*

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There are many aspects of financial planning, and different areas will be of importance to individuals at different stages of their lives.

You have just graduated, whether it be from high school, a trade school or college, and you are starting your first full time job. You are likely facing a number of new financial responsibilities including employer benefit forms, student loans, rent, insurance, car payments and more. The thought of setting aside a portion of your paycheck for a retirement that is still decades away is probably the last thing you are thinking about.

The most powerful tools a young investor has are time and compounding. Every little contribution adds up, especially when matched by an employer. Consider contributing at least the maximum your employer matches to take advantage of this “free money.” Increase contributions on a regular basis, as debts are paid off or your salary increases, to put a portion of the additional cash flow to work for your future. Another benefit that a longer timeline offers is the ability to better withstand market losses, so you can invest more aggressively than older counterparts.

While you are in your twenty's, prioritize shorter-term financial goals such as paying down student loan debt, buying a car, saving for your first home, or getting married. Review weekly spending habits from time to time and incorporate a savings plan. Ideally, emergency savings should equal three to six months' worth of your salary.

Keep saving to your retirement account(s). If you don't have access to an employer-sponsored account, consider an IRA or Roth IRA. A Roth IRA will allow you to withdraw a portion of your contributions without a penalty should an emergency arise.

You've now reached your thirty's and your career is taking off. Income has increased and you may be thinking about paying off those student loans, buying that home or starting a family. Raising children is expensive, especially when also saving for their education, or if one spouse leaves the workforce to raise the child(ren). Retirement savings at this stage should be growth-oriented with a relatively higher risk tolerance. This is also a good time to ensure your wills, healthcare and financial directives and any trust documents are up to date.

The years that make up your forty's may be peak earning years, and a great time for maximizing retirement savings. Children are getting older, and college bills may be arriving, or you may find yourself caring for aging parents, managing an untimely death, disability, divorce or other disaster. Perhaps you are considering changing jobs, starting a business, going back to school, or moving. Any one of these events could have a significant impact on your financial health.

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It's important to review and understand your various insurance coverages (property, life, long-term care, etc.) to ensure they sufficiently cover your needs.

Many people in their fifty's are possibly married and owning a home but are not empty nesters quite yet. Once household expenses start to drop is a great time to ramp up saving for retirement. Beginning the year that you turn fifty, you can invest more into your retirement accounts through "catch-up contributions." 401(k) and 403(b) plans, SIMPLE 401(k) plans, Traditional and Roth IRAs all have higher contribution limits for those age fifty or better.

As important as the increases to your saving and investing is the diversification of those assets. Diversifying your portfolio offers protection - should one investment decrease in value, others will likely be increasing and help offset any market losses. It's generally recommended that your portfolio mix become more conservative as you grow older, so you don't risk losing the capital you've accumulated. You no longer have decades to make that money back should the market dip.

As retirement nears, what do you want those years to look like? Does your budget allow you to live the life you desire without running out of money? Consider downsizing your home, which may also allow you to save money on insurance, utilities, and taxes.

Traditionally, most people retire around age sixty-two to sixty-five. However, many are now working longer, either because they choose to, or they didn't have (or didn't take advantage of) the opportunity to save for retirement when younger. Working longer allows you to build up a bigger nest egg and delay claiming Social Security benefits. Each year that someone postpones receiving Social Security benefits, the initial benefit amount increases about 8%. Exploring Social Security optimization strategies offers the opportunity to maximize lifetime benefits for the household.

Consider the differences between pre-tax and after-tax accounts and don't forget about required minimum distributions (RMDs). The IRS requires that you begin taking retirement withdrawals by April 1st of the year following the year you reach age 70½. If you continue working past age 70½, you can delay RMDs from that employer's plan until the year after you actually retire.

Your portfolio should now hold mostly conservative investments. You want to keep up with inflation, but don't want to lose sleep at night worrying about the stock market. In the event of a market correction, keeping one to three years' worth of income in liquid assets will give you the ability to ride it out without having to draw from your retirement accounts while the market is down, leaving fewer invested funds available to bounce back.

A comprehensive financial review should be conducted at least annually or upon major life events occur such as marriage, divorce, birth of a child, job change, etc. Some of the more common planning areas we address include retirement, investment, tax, education, marriage/divorce, budgeting, and risk management (insurance).

We are happy to answer your financial questions, to walk through the financial and non-financial decisions surrounding your stage of life and help you to achieve the goals you may have. Give us a call at (217) 441-2200 or visit us online and check out the free resources available at www.MySoundPlan.com.



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