Financial Planning Considerations During Your Lifetime

Planning for financial independence in retirement is a process that evolves as the importance of different planning aspects change over time. Priorities and needs change as a person traverses through the decades of their life. For example, a 30 year old has different priorities and needs than a person in their 60s. It is those unique financial needs and priorities that drive the importance of financial planning. Life insurance and disability insurance are often essential in your 30s and 40s but may not have the same value as retirement age nears. However, some aspects of financial planning are not as decade sensitive as life insurance planning. Budgeting and saving are important over all decades of life. Here is an overview of the most central financial planning items during your lifetime.

Thirties

- Financial Habits
- Life Changes
- Income Replacement
- Home Purchase

Major life events usually take place around age 30. People tend to have more stability in both their professional and personal lives. This stability can drive big events such as getting married, having children, or buying a home. It is very important to begin to develop sound financial habits in these early years of adulthood, if not earlier. Creating a budget and tracking spending habits is a great way to train your financial muscles. During this decade you should develop a plan to paydown or payoff high interest debt, such as student loans or credit card debt. Debt management should be considered in the creation of your budget to mitigate paying high amounts of interest on debt balances. Getting married and starting a family means that finances could be merged, which then creates the need for wealth transfer documents such as a will, power of attorney, health care power of attorney, and guardianships for children. Starting a new family creates the need for insurance, both life insurance and long-term disability insurance, for income replacement for your dependents. With a first-time home purchase, it is important to think about mortgage financing, fixed or variable rates and the term length, and how the new liability will impact your financial picture.

Forties

- Budgeting is Key
- Savings is Focus
- Balancing Retirement and Education Savings

Budgeting is consistently important throughout a person's life cycle, but in one's 40s it becomes vital. A persons' 40s can be a very expensive decade due to added expenses from children, education savings, and mortgage payments. It can be very expensive because combined with the added expenses, in this decade there is still a need to carry your insurances for income replacement, which come with insurance premiums. Balancing effective retirement savings with education savings of a 529 in this decade is crucial. It is very important to be mindful of taxes and take advantage of the tax deductibility and efficiency of contributions to 401ks and Health Savings Accounts (HSA). In your 40s, there is still a long runway before retirement. Because you could still have 20 years or more before retirement, it is ever more important to utilize these tax advantaged accounts to allow ample opportunity for investments to compound and grow in a tax efficient manner.

Fifties

- Increase Retirement Savings
- Decrease Insurance
- Consider Long-Term Care Insurance
- Leverage Tax Minimization Strategies

The 50s tend to be a person's strongest income earning years and depending on where college savings stand, these years could be the most manageable from an expense standpoint. At this point in a person's life, mortgage balances are often paid down and there is less of a need for life and disability insurance now that children have become more independent. This is a great time to firm up any gap in retirement savings with 401k catch ups and after-tax investments. The catch up contribution available to anyone over 50 years old is an additional $6,000 on top of the $19,000 401k employee deferral. The early 50s is an ideal time to consider long-term care insurance from an affordability and value standpoint. One common mistake people make is waiting until their 60s to consider long-term care insurance and the cost of the insurance is too high or the person is not insurable because age related health issues arise. With earnings nearing a person's lifetime highs, there are greater opportunities for philanthropic giving. Utilizing donor advised funds and using low basis securities are great ways to gift in a tax efficient manner.

Sixties

- Preparare for Retirement
- Understand Medicare and Social Security
- Reduce Liabilities
- Define Retirement Budget

In your 60s, retirement becomes a real option and true priority. Most people work into their 60s allowing a few extra years to maximize their retirement savings in retirement accounts. Early in this decade is an important time to review a social security and retirement income analysis. It is the best time to understand how delaying social security increases your benefit by 8% per year, with a max benefit at age 70, and then develop a plan. A person's thoughts on their own longevity is often a determining factor and helps determine the age to begin to draw on their benefit. Preparing for health care costs and understanding how Medicare and Medigap supplements work have more meaningful significance during this decade. Overall, this is often the least expensive decade as most people will work into their middle 60s, but all long-term liabilities have been either drastically paid down or eliminated.

Retirement Seventies and Beyond

- Retirement Income Planning
- Estate Planning
- Philanthropic Giving
- Gifting Strategies

Entering the later stages of life in your 70s, 80s and even 90s is when retirement income planning comes into fruition. The years leading up to retirement you should have your investment portfolio appropriately constructed to provide income through stock dividends and bond interest. It is important to understand the most tax efficient manner to start to draw from your investment portfolio. Taxable accounts will be drawn down first and tax deferred retirement accounts will be secondary. This may be a time to consider converting your Traditional IRAs to Roth IRAs as your tax bracket will most likely be lower than previous earning decades. Roth IRAs are one of the best account types for the next generation to inherit as the beneficiaries required minimum distributions will be tax free. Continuing to manage expenses such as health care and basic living costs is very important during this decade. Estate planning and strategic gifting become a larger priority as does philanthropic giving. Low basis securities are great ways to gift to loved ones or charities in a tax efficient manner. Ultimately, this is the time to focus on the fruits of your career and a lifetime of hard work. This is the time to visit grandkids, travel, or start a new hobby, but it is important to do so responsibly by managing cash flows to the best of your ability.

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