Retirement Planning Decade by Decade

Retirement planning is a lifelong process. The earlier you start, the better off you'll be in the end. Below are some of the key retirement-planning actions you need to be taking from your 20s through your 60s.

**Your 20s**
Start saving. The sooner you start saving for retirement, the less you’ll have to save overall. If you start saving $5,000 per year at age 25, you’ll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you’ll have about $395,000 — more than $300,000 less. Also, since you’re still decades away from your retirement date, don’t be afraid to take some risk with your investments. You’ll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you’re young: Start budgeting, avoid debt, and save for other goals, like buying a house. Even if you’re not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

**Your 30s**
As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider increasing your retirement contributions by the amount of your annual raise, so that you don’t fall behind on saving. Reassess your savings rate and consider meeting with a financial planner to make sure you’re saving as much as you can — and investing it well.

**Your 40s**
You’re at the halfway point to retirement. If you’ve been saving for

What You Should Know about Financial Literacy

Each of us appreciates a support system to help us make good decisions. Savvy advice from friends allows us to analyze and filter information, which can result in beneficial outcomes.

Financial literacy can also serve as a friend and support system to help us navigate financial choices and transactions. Moreover, financial knowledge is a powerful tool to analyze and filter information. Financial literacy helps us to make sound decisions regarding the use of credit, establishing financial goals, and budgeting, saving, and investing wisely. It also teaches us about risk management (insurance), taxes, and estate planning. Learning how to identify fixed, variable, and discretionary expenses enables us to develop budgets to control living expenses, which leads to greater savings and wealth. Knowing how to acquire, use, and manage credit can build assets and limit the depletion of household financial resources. Creating financial goals — short-term, mid-term, and long-term — drive each component of personal money management and can produce greater lifetime financial well-being.

Financial illiteracy, however, can be a devastating foe. It limits the ability to achieve economic security and promotes inequality in the marketplace. What you don’t know can hurt you.

Do you want financial growth at each stage of your life? Then make a commitment to becoming financially literate right now. To read more, visit [www.sfepd.org](http://www.sfepd.org)

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Retirement Planning

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the past 10 or 20 years, you should have a nice nest egg by now. And if you haven’t gotten serious about saving, now is the time to do so. You’ll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you’re an accomplished saver or just getting started, you should consider meeting with a financial advisor to help you make sure you’re saving enough to meet your goals and investing in the best way possible.

A special note: People in their late 40s and early 50s are often also looking at steep college tuition bills for their children. Don’t make the mistake of sacrificing your retirement goals to pay for your children’s college educations. Stay focused and on track, so your children don’t have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k) plans and IRAs. You can save an additional $6,000 a year in your 401(k) plan and $1,000 a year in your IRA in 2015. That’s great news if you’re already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what’s going to happen when you retire — when exactly you’re going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It’s also the time to take stock of your overall financial situation. You’ll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free at retirement by paying special attention to paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven’t already, you’ll want to dial down the risk in your portfolio so you don’t take a huge loss on the eve of your retirement. You’ll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you’re falling short, it’s better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call your financial advisor so we can discuss this in more detail.

Diversification: Not Just for Stocks

Most investors know that one of the best ways to manage risk in a stock portfolio is to diversify. But ask the average bond investor how to cut risk, and the answer is likely to focus on safety: Treasury securities and federally insured CDs. Yet it is important to diversify your bond portfolio across several dimensions, including maturity, safety, and yield. Here are some choices to consider to deal with these challenges:

Laddering — A bond ladder is a way for buy-and-hold investors to diversify within the same asset class and risk category. The purpose is to soften the impact of rapid changes in interest rates and obtain a smoother flow of cash from interest payments. The way to construct a ladder is to spread your assets equally among an array of maturities so that only a portion of your portfolio matures in any one year. Instead of concentrating in bonds that mature in six years, for example, you might create a portfolio consisting of bonds that mature in two, four, six, eight, and 10 years. When the shortest bond matures, you use the funds to buy a bond that matures in 10 years.

Adding geographic diversity — If you own municipal bonds, are they only issued from your state of residence? While such bonds generally offer the added advantage of exemption from state income taxes, diversifying your holdings to include bonds from other states offers three types of potential benefits: 1) higher yields, 2) better credit quality, and/or 3) exposure to different regional economic risks and opportunities.

The same can be said for investing in the debt of foreign governments. While foreign bonds carry the additional risk of currency exchange rates, for investors with large portfolios, adding small amounts of currency risk can actually reduce the overall volatility of a portfolio.

If you think you could benefit from greater diversification in your fixed-income portfolio, please call your financial advisor.

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Does Your Insurance Need Adjusting?

Of course, the policies that were just right for you five years ago — or even one year ago — may not be just right today. Thus, you should review your insurance every year or after a major life event. During that review, consider these questions:

Have you recently married or divorced? A marriage or divorce may affect several different types of insurance needs, including:

- **Life** — If you’ve recently married, you may want to purchase a life insurance policy that would provide a source of additional income to your surviving spouse if you die. If you’ve recently divorced, you’ll want to remove your ex-spouse from your insurance policies and name a new beneficiary.

- **Health** — You’ll typically need to add your spouse to your employer-sponsored health insurance within 30 days of marriage or wait for the open enrollment period that typically occurs once a year. If you’re divorced, you’ll want to remove your ex-spouse from your plan.

- **Homeowners** — If you’re combining households, you may need to increase personal property insurance so that all possessions are protected in case of theft or damage.

- **Auto** — Many insurance companies offer discounts for multiple policies. The savings can be significant if both you and your new spouse have autos insured by the same company. Insurance companies that offer both auto and homeowners insurance may provide even larger discounts for those who purchase both types of policies.

- **Has your spouse died or become disabled?** These types of changes warrant a reassessment of all your insurance needs. If your spouse has died, you’ll want to rename beneficiaries on your life insurance policies.

- **Have you had a baby?** According to the Insurance Information Institute, five million households with new babies have not updated their life insurance protection. You should ensure that your life insurance coverage is sufficient to provide for the child’s needs until adulthood, perhaps including education expenses in addition to day-to-day expenses.

- **Also review your disability insurance coverage, since you now have another dependent relying on your income.** Look into both short- and long-term disability coverage. Many employers offer some level of disability insurance coverage. However, don’t just assume that coverage is sufficient. You may need to purchase additional insurance to supplement that offered by your employer.

- **Keep in mind you typically have 30 days after birth to add your child to your employer-sponsored health plan.**

- **Are there any new drivers in your household?** If you have a teenager who has just started driving, be prepared for significant auto insurance increases. Insurance companies often give premium discounts when the new driver has taken a certified driver’s training course or is a good student, so make sure to check with your insurance company. Once your child goes away to college, inform your insurance company if your child did not take a car to college.

- **Have you switched jobs and/or dramatically increased or decreased your earned income?** **Have you retired?** If you have a significant increase or decrease in your income that has caused changes in your lifestyle, you may want to adjust your life insurance policy.

- **Once you retire, reevaluate your life insurance to see if any changes are warranted.** And if you’re no longer commuting every day, you may qualify for lower auto insurance premiums. Also make sure to review your long-term-care needs.

- **Have you acquired any new valuables?** Have you purchased or sold a home? Your homeowners insurance policy, which also covers personal property up to specified limits, typically covers new purchases automatically. However, make sure that any new purchases don’t exceed the limits of your policy, or the item may not be covered. Periodically review your inventory of personal property and compare it to your homeowners insurance.

- **Have you made extensive renovations on your home?** The Insurance Information Institute indicates that nearly 40% of homeowners who have significantly remodeled their homes have not updated their homeowners insurance. Make sure to review your policy limits when you add significant value to your home. It’s actually a good idea to review your policy periodically to make sure it will replace your home if it is totally destroyed. Changes in the cost of rebuilding a home can outpace the limits of your policy, and you don’t want to be left unprotected.

- **It’s a good idea to reassess your insurance needs at least once a year. Please call your financial advisor if you’d like to discuss your insurance needs in more detail.**
If you’re interested in getting started with savings, or if you want to save more, here are five reasons to help keep you motivated.

1. **You’ll be prepared for emergencies.** Here’s an alarming statistic: 62% of Americans don’t have enough money saved to cover even relatively small, unexpected expenses, such as emergency room copays, minor car repairs, or a broken furnace (Source: CNBC, June 7, 2015). Without cash on hand to cover these irregular but inevitable costs, you’re more likely to turn to credit cards or loans when the need arises.

2. **You’ll be more independent.** With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Without savings, you’re living on the financial edge; and you’re more likely to find yourself stuck in situations you may not be satisfied with.

3. **You’ll be able to reach your goals.** Whatever your dreams, they likely have one thing in common—you’re probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don’t save for them.

4. **You’ll be able to earn more money.** Saving isn’t just about setting aside what you’ve already earned. It’s also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding interest, even relatively small amounts can grow significantly, provided you don’t touch your principal.

5. **You’ll be happier.** No one wants to suggest that money is the only thing that can make us happy. But there’s also evidence that saving money, even in small amounts, can make you happier. A 2013 study by Ally Bank found a strong relationship between saving and happiness, with 38% of people who had a savings account reporting that they were very happy, compared to 29% of people without a savings account. Those feelings of happiness increased the more people had saved. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Please call your financial advisor to discuss how you can make regular saving part of your financial plan.

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**Risk Management Techniques**

It would be very expensive to insure every risk you are subject to, so you may decide to use other strategies for some risks. The primary ways to manage risk include:

- **Avoid the risk.** There are some risks that insurance companies won’t insure or that are very expensive to insure. Thus, your best strategy may be to simply avoid the risk.

- **Reduce the risk.** In many cases, you can reduce the possibility of loss through active steps on your part. For example, you can start exercising or wear seat belts.

- **Retain the risk.** When the cost of insuring the risk exceeds the benefits you would receive, your best option may be to retain the risk. The use of deductibles and coinsurance are also forms of retaining risk.

- **Transfer the risk.** Typically, this involves purchasing insurance and is used for major risks that can’t be eliminated through risk reduction or avoidance. You should consider insuring all potentially severe losses, such as death, disability, catastrophic healthcare costs, major property loss, and personal liability suits.

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**Financial Thoughts**

A recent survey found that two-thirds of American adults have seen their long-term financial plans adversely affected by an event. Those events include the loss of a job or being forced to take a lower-paying job (43%) and poor investment or business performance (28%). After the disruption, 80% of respondents said they reduced their savings and/or expenditures. The net effect was a nearly 60% drop in the amount saved, with 49% of respondents saying they may need to delay retirement or forgo it completely (Source: TD Ameritrade, March 31, 2015).

In 2014, nearly half of Americans said they were hit with unforeseen expenses that pressured their budgets in the following categories: 46% by car expenses, 44% by healthcare spending, 32% by home repairs, 13% by education costs, and 12% by insurance costs (Source: American Express, 2015).

When asked how much they spend on technology each month, 37% of respondents said less than $100, 26% said $100 to $199, 21% said $200 to $299, and 16% said over $300 (Source: Money, July 2015).