Financial Plans Evolve Through Every Stage of Life

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A financial plan is like a house; it was never intended that one model would fit all your needs over the course of a lifetime. Instead, your plans must evolve over time as your goals, your family and your income level change. While your principles remain the same throughout your life, the tactics you use to achieve your financial goals change with the decades.

Here's a look at how three key areas of your financial life – investing for retirement, life insurance, and estate planning – evolve as you move through the young adult, middle-aged, and retiree stages of your adult life:

YOUNG ADULTS

THE 401(K) IS KEY

Your primary financial decisions revolve around launching your career, getting married, having children, buying a first home and, perhaps, paying off student loans. You're not earning very much yet, but it's still time to start thinking about investing for retirement.

For most younger people, the crucial decision is to become fully invested in your employer's 401(k). A simple paycheck deduction makes it easy to save, and employer matches can double what you're putting away.

There's an old rule of thumb that the percentage of equities in your retirement account should equal 100 minus your age. Thus, at 25, you'd have 75% stocks and 25% bonds in your portfolio. Some surveys have shown that millennials are reluctant to invest in stocks, since their first real exposure to the stock market was the fallout from the crash of 2008–09. But this is when you should ▶

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be thinking long-term, to realize that even if you do incur some losses, there's plenty of time left to make them up.

MIDDLE AGE

THE 100-MINUS THEORY

As you settle into middle age, harking back to the rule of 100 minus your age, your investments for retirement should approach an equal balance of stocks and bonds. From there, you can modify it based on your objectives, your risk tolerance and your sources of income.

Your 50s are also a good time to start building a tax strategy for your retirement. One idea is to think of your retirement contributions as going into three buckets: taxable, pre-tax and post-tax. Any investment without a tax advantage, such as buying a mutual fund, is in your taxable bucket. A 401(k) or IRA, where money is typically contributed before taxes are taken from it, constitutes the pre-tax bucket. The post-tax bucket is your Roth IRA – money that had been taxed when you contribute it, but is tax-free when you withdraw it. Now is a good time to assess what your tax situation is currently and what it's likely to be in retirement, and save accordingly.

RETIREMENT AGE

FROM GROWTH TO PRESERVATION

When it comes to investing, things are tricky for retirees or near-retirees. Now you have to worry about the risk that you will run out of money; about a quarter of today's 65-year-olds will live past 90, which means a good 25 years in the retirement phase of life.

In one sense, your investment goal shifts at this point from growth to preservation, but if you're going to live another 25 years after your work income ends, you'll need some growth as well. You'll want to shift more – but not all – of your assets into bond and money market holdings.

You're also more exposed to market drops, and not just because you have less time remaining to make up for them. When you're working and saving, dollar-cost averaging means that if you invest the same number of dollars each month, you buy more shares when the market is down, which helps build your nest egg. But the same factors work in reverse in retirement: To get the same monthly income, you have to sell more shares when the market is down. So when the market rebounds, your money is no longer there to grow along with it.

This is just the beginning of how a well-constructed financial plan will evolve over the course of your life. Every step of the way, your Baird Financial Advisor can help you create plans that suit whatever house you happen to be in.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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