Saving, Investing and Financial Planning by Age

Time is an essential element to growing wealth. But the amount of time you have to grow it may affect the strategy you take with your money. What's more, your risk tolerance, amount of discretionary income, and competing priorities can be contributing factors, as well as your financial and life goals. Regardless of your age or generation, a goals-driven planning and investing process should be part of your financial plan.

Strategies For All Ages

Here are a few basic guideposts everyone should keep in mind:

- Spend less money than you earn.
- Control your debt; don't let it control you. If you don't have debt, keep it that way.
- Keep an emergency fund for unexpected financial surprises.
- Invest in low-cost, diversified investments.

Now, along with the basics, layer on these age-based financial initiatives:

In Your 20s & Early 30s

Challenges: Gaining financial independence from parents, obtaining first full-time job, paying off student loans, getting married, buying a house, starting a family

Key Financial Initiatives:

Take advantage of the power of compounding interest with early saving. Even though you have less income to invest, you can often handle more risk (e.g., put 90% of your portfolio in stocks). By 30, you should have the equivalent of your annual salary saved. For example: if you earn $50,000 per year, by your 30th birthday you should have $50,000 saved.

Set aside an emergency fund. A job loss, illness, injury, or a major household repair can put you in a financial bind. The rule of thumb is to save at least three to six months living expenses in a secure, high-yield savings account.

Take advantage of workplace benefits like a 401K. Tax-advantaged retirement accounts can be deducted from taxable income, which results in tax savings today. Even more, a company match is free money. Employers who offer matches usually contribute up to 3-6 percent of your annual salary.

Find a financial advisor you trust. A professional financial advisor can help you navigate paying off college, saving for retirement, buying a house, and the costs associated with starting a family.

Late 30s & 40s

Challenges: Paying your mortgage, educating children, eliminating debt, increasing retirement savings

Key Financial Initiatives:

Step up retirement savings. By age 40, you should have saved 3x your income. For example: if you earn $75,000 per year, by your 40th birthday you should have $225,000 saved. If you don't, it's time to step up your retirement savings. Your asset allocation will begin to shift to more conservative assets and lower risk stock exposure (60-70%).

Refinance your mortgage. Paying off your mortgage early can help you eliminate debt and save more money for retirement. In some cases, refinancing can remove thousands of dollars from your biggest debt.

Protect your family with insurance. If you have a young family, have a salary that needs to be replaced, and are actively paying off debt, life insurance can provide a reassuring level of security. Other short-term insurance products—for accidental death and dismemberment or mortgage insurance—can cover worries while you're still working or paying for your home.

Save for educational expenses. A state-sponsored 529 plan allows you to fund a college education in a tax-advantaged way. You can benefit from tax-free growth and withdrawals when money is used for higher education expenses including tuition, fees, books, housing, and technology. In addition, any funds in a 529 account that a child does not use can be transferred to siblings.

50s to Retirement (Empty Nesters, Sandwich Generation)

Challenges: Taking care of kids and parents (often simultaneously), transitioning to retirement, having anxiety about being ready for retirement

Key Financial Initiatives:

Shift to less risky investments. Even though you may have more money to invest than you did when you were 30 or 40, you have less time to recover from any losses. By age 50 you should have saved 6x your income. For example: if you earn $100,000 per year, by your 50th birthday you should have $600,000 saved. If you don't, it's time to step up your retirement savings. Your asset allocation will begin to shift to assets with even less risk and even lower stock exposure (50-60%).

Talk to your wealth planning advisor. Wondering how you'll save for retirement while paying your kids' tuition and covering your parents' expenses? You're not alone. Millions of Americans are part of "the Sandwich Generation," feeling the squeeze from all angles. Despite these challenges, you can still get ahead by discussing your financial future with your advisor.

Catch-Up Contributions can boost your 401(k). Individuals who are age 50 (or over 50 at the end of the calendar year), can make annual catch-up contributions to their 401(k), 403(b), SARSEP, or governmental 457(b). In 2023, you can set aside up to $7,500 extra.

Retirement & Beyond

Challenges: Assessing when to take Social Security, deciding whether to stay in the house or move/downsize, planning for potential long-term care events, estate/legacy planning, worrying about outliving financial reserves

Key Financial Initiatives:

Play it safe. You may need to access the assets you've worked so hard to accumulate and grow over the last few decades. This means you are more susceptible to market movement and short-term risks. Your exposure to stocks percentage should generally be 100-110 minus your age. For example: If you are 70, then your exposure should be 30-40%.

Talk to your advisor about right-sizing your home or accessing home equity. For many Americans, their homes are their largest assets. Did you know that retirement wealth might be available in the equity in your home? Given that home equity is such a big part of your net worth, using some of it to help pursue your goals for retirement can make sense—BUT only if you manage the risks.

Plan to distribute assets to heirs. Legacy planning can be a meaningful part of your financial strategy. Putting a plan in place to safeguard your estate takes thoughtful consideration. Your advisor can help you determine how your remaining assets should be distributed and used and that you have all the right documents in place.

Make a contingency plan. An unexpected healthcare event can have a considerable financial impact. The sudden need for long-term care can be even more financially devastating. Speak with your financial advisor to learn how to best maximize your income and assets, while planning for all contingencies such as future long-term care needs for yourself or a loved one.

Consider delaying Social Security payments. You can start taking Social Security as early as age 62, wait until you've reached full retirement age, or start at age 70. The rule of thumb is that if you can afford to wait, you should wait. Delaying Social Security can pay off over a long retirement. If you continue to work until your late 60s/70s, you are in good health and expect to live a long life, or you want the highest benefit for you and your spouse, delaying might be right for you.

No one strategy or allocation works for everybody and every situation. Every person's life goals, risk tolerance, and financial needs are different. It is good to review your plan annually with your financial advisor to make sure you are on track and taking the necessary steps at each age.