The Importance of Financial Planning at Any Age

It's easy to think that a financial plan is only necessary when you need to make a big purchase or rearrange your portfolio.

However, financial planning affects much more than your bank account, and a successful plan should follow you through all the stages of your life. In a financial climate where more than half of Americans don't have a budget and just over 40 percent of baby boomers don't have a will, it seems that many could benefit from planning. Yet the fact remains that just 31 percent of household financial decision-makers say they have any kind of comprehensive financial plan. Prevalent among the reasons to avoid planning are "I'm too young to need a financial plan," "I'm too old to get a financial plan," or "I've made it this long without one, so why get one now?" When these doubts are raised, it's important to consider that your financial plan isn't something that can be made and then forgotten about, nor should it only be remembered when you find you're low on funds; to succeed, it will need to be fluid and change as your situation changes. Read on to discover the importance of financial planning at any age.

On your mark, get set, go!

Planning in your 20s

As a 20-something, you probably think that you're too young and have too few resources to warrant a financial plan. Before you write off financial planning using this logic, consider that your 20s are when you establish the financial base for the rest of your life. You're likely earning your first salary and dealing with your first large sources of debt in student loans and car payments. You may be faced with buying your own insurance and investing on your own for the first time. You also have the widest range of financial goals in your 20s, as most of your major life events are still ahead of you. Meeting with a financial planner during this time can improve your financial literacy, helping you learn things like how to set up an emergency fund, make a spending plan and establish good credit. It can also help you set up a basic estate plan, something that's easy to overlook in your 20s. It can be overwhelming when you're starting out to be bombarded with all of the things you could be putting money toward. A financial plan can help you prioritize where your money should go by determining your most significant money goals and how to reach them.

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Not only are these years a crucial time for financial education, but disregarding a financial plan could cause you to unintentionally squander the biggest asset of your 20s—time. With the power of compound interest, the money you save or invest now can grow exponentially, but wait another 10 years and you may have to contribute a lot more to achieve the same end result. Bottom line? The earlier you start saving and the longer you give your money to grow, the better. There's no better time to start establishing good money habits than in your 20s, and that all starts with a financial plan.

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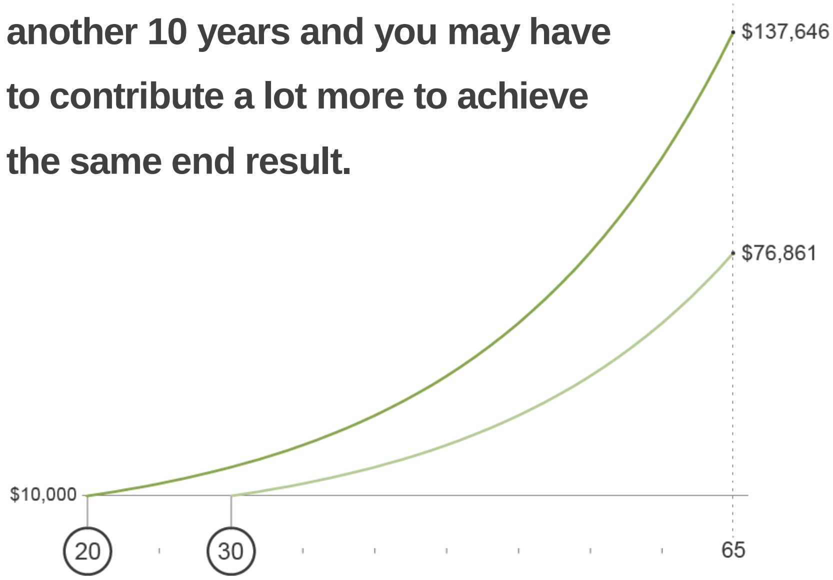

Take it to the next level.

Planning in your 30s

If your 20s are to build a foundation for your own financial literacy, your 30s teach you how to cope when that foundation shifts and you find yourself dealing with new and larger challenges. A financial plan at this age can help you deal with some of life's biggest transitions, such as starting a family or becoming a homeowner. These can bring on newer and bigger sources of debt, so a crucial aspect of financial planning at this time is to eliminate non-mortgage debt, such as paying off your car and student loans and paying down credit card debt. These big life changes may also trigger a need for expanded insurance coverage on your home or extended life insurance, if you have a family depending on you. For the same reason, you should review your estate plan, making sure you have a will, living will and power of attorney.

You set up the basics of a financial plan in your 20s, and it's time to reevaluate now that your earnings power has likely increased. You should set a more definite plan for retirement and focus on contributing a set amount each month rather than just maintaining an account. A financial plan can help you review and understand your asset allocation among various types of investments, aligning your investment decisions with your lowered risk tolerance and time horizon. It's also a good time to check on your emergency fund, and make sure you have three to six months' worth of income saved should an unforeseen crisis affect your life. Finally, a financial plan can help you direct some of your increased earnings to charity, as you may be approaching a time in your life when you feel stable enough to give back.

Make it or break it.

Planning in your 40s

Your 40s are a crucial decade for building up retirement savings, and a financial plan can help you make sure you're on track. While many will start a retirement account on their own, it can be hard to budget for both retirement and non-retirement savings. In fact, 39 percent of U.S. adults have no form of nonretirement savings. Without financial planning, it can be hard to focus on saving for multiple goals and prioritizing the importance of those goals at different times in your life. For example, although paying for your children's education may be a factor during your 40s, remember that while there are loans and scholarships available for college, the same is not true for retirement. So, while it's important to save for both goals, you may have to put your own savings first by allotting more money to a retirement fund than to your child's education. This can be difficult, especially since most parents are used to putting their children's needs before their own. Having the third-party perspective of a financial advisor can be especially valuable in these situations to help you stay focused on the best way to reach multiple financial goals.

Your 40s are also a good time to do an overall review of your plan. You may need to increase your insurance coverage, as the insurance offered through your employer may no longer be enough to cover you and your family in the case of a crisis. You will also want to review your estate planning documents and make sure your beneficiaries are up to date. And, since your earnings are likely peaking and this is truly the "make it or break it" time for your retirement savings, your plan should help you determine how to allocate more money toward your IRA or 401(k).

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In the home stretch.

Planning in your 50s/60s (preretirement)

During this phase of your life, retirement stops being a far-off, abstract concept and becomes real. You should engage in retirement planning with your spouse, including choosing a retirement age and discussing the types of activities you'd like to pursue during retirement. You may want to evaluate your health, as health and insurance needs can factor heavily into your retirement budget. You should be estimating your Social Security benefits and maximizing contributions to your retirement account, including catch-up contributions that you are now eligible for. Since many large expenses, such as your mortgage payment, may soon be behind you, you can push to eliminate a lot of your debt so you can head into retirement debt-free. To stay on top of all of these tasks, you can think of your financial plan during this time as a preretirement checklist, ensuring you've covered all of your bases so that you can enjoy the relaxation you deserve during retirement.

In addition to checking off your preretirement tasks, it's likely that a large part of your financial planning will focus on protecting the retirement savings you already have and creating an income strategy for retirement. Because you now have a lower risk tolerance and less time to recover from a dip in the market, your investment strategy will probably need to be more conservative. Ultimately, your financial plan can help you cross-reference your retirement needs and goals with your retirement income, and your financial advisor can help you project whether this income can provide for you throughout your retirement.

Keep on keepin' on.

Planning during retirement

You may think that once you reach retirement, you no longer have to worry about financial planning. After all, you've made it this far, right? However, there are many unique financial considerations for retirees, not the least of which is how to effectively transfer your wealth to the next generation. You should review your estate plan to make sure that everything is up-to-date and correct, and determine how you want your wealth to be allocated upon your death. Depending on your situation, this may include providing for family and/or friends, setting up trusts or making arrangements for an after-death charitable donation.

As your health needs change during retirement, a financial plan can also help you consider the impact of different senior living options on your budget and evaluate what kind of health care and insurance you need and are eligible for. Similar to your younger years, you will likely have a lot of planning surrounding cash flow issues and how to make the most of your income. Far from being over, financial planning can play a large role in your retiree years, helping you live out the remainder of your life comfortably and with peace of mind.

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