Proper Planning Through Life's Stages to Avoid Money Worries
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Recently when I was talking to journalist Cameron Huddleston, we discussed retirement questions that everyone needs to be able to answer. That resulted in her article "21 Questions to Ask Yourself Before Trying to Retire" and a second one called "8 Ways to Stop Worrying About Money". This reminded me of our recent webinar entitled "5 Key Retirement Decisions" and the Retirement Survival Guide on our website. It also reminded me to finish this article that I started to write several months ago.

For this article, the goal is to help people at different stages of their life make better financial decisions and to try to take away some of the "Money Worries" that we all have. These stages are "foundational" and goal oriented where each level would build on each other. This guide will address each of these foundations. Don't worry if you missed the age, just start with the beginning and work towards the end to get back on track. Through this process, my goal is to help you get your financial house in order and to help you have less stress and be in a place to start targeting and achieving financial goals.

I. Building the Foundation – Knowledge is Power (Age 20 to 30):
Everybody worries about financial decisions, indecisions or consequences. When you don't have good information (or good resources for answers), it can lead to even more stress or mistakes. Therefore, before you can stop worrying, you need to know where you stand (financially). A great way to do that and get started is by getting an accurate snapshot of your current situation. To save money, try these things before meeting with or hiring a CPA or Financial Advisor.

1. **Budget:** You need to know where your money is going before you can start saving for any goal or retirement. At STA Wealth, we use a software built into eMoney Advisor, but for those not working with us, there many options out there and while we do not endorse any particular software I have listed a few below you could consider:
    a. Mint.com: A great way to have your credit card, banking and other information compiled in one place so you can track where your money and paycheck are going. Great online resource to track and categorize your expenses and you can even create a budget once you get a handle on the money.
    b. Quicken: With this software, especially if you don't like everything online, you can track all of your expenses and can even link it (like with online mint.com) to your bank and credit card accounts. This is another way to track spending to see where your money is going.
    c. Cash/ATMs: Try to start giving yourself a FIRM "allowance" of cash to spend. Stop spending frivolously for now other than your allowance (depending on your level $50 to $100 a week). Once that allowance is done, no more Starbucks or Movies, etc. Think of it as a financial "diet" at first to see how much you can

resist daily splurging or cheating by putting these unplanned budget "leaks" on a credit card.

  d. <u>Note:</u> One thing of importance in this area is to see what spending is fixed (like rent, food, mortgage, taxes, etc.) and what is discretionary (like cable, eating out, vacations, etc.). We will use this quite a bit in in #4 below.

2. **Credit:** Get a handle on your credit and FICO Score. You can get this information by calling the credit bureaus like Equifax or through online resources like MyFICO or Experian. You need to check for errors, unneeded credit lines and/or things you can fix to better your credit. Some have tools to help see how you can increase your score by doing things like paying down lines of credit, etc.

3. **Debts:** Create a list of your debts, amounts, minimum payments and interest rates. It is important to see how much this debt (including student debt) is costing you and "draining" your cash…. especially for high (non-deductible) interest accounts. At this point, it is good to follow the recommendations in #1 to stop the debt bleed. No more spending money that you can't pay off at the end of the month (debt spiral). This can be done in a simple spreadsheet so you can see it all on one page.

4. **Prioritize Spending, paying off Debt and Goal Setting:** At this point, it is important to determine your goals so that you can "de-stress" and make better and informed money decisions.
   a. <u>Spending:</u> What spending is needed and what is frivolous (or discretionary). Consider cutting back on expenses that are unnecessary and re-deploying cash in other areas. PLEASE TAKE THIS INTO ACCOUNT BEFORE MAJOR PURCHASES LIKE NEW CARS, NEW TVs, VACATIONS OR NICER APARTMENTS.
   b. <u>Discretionary Income:</u> If you look at your net paycheck (after taxes, benefits, etc.), and deduct your fixed expenses, the balance is your discretionary income. Depending on what you find in #2 or #3 above, you may want to decrease discretionary spending and focus your discretionary income on one of these areas:
      i. Paying off higher interest debt.
      ii. Setting up a rainy day fund (of 3-6 months fixed expenses)
      iii. Funding your employer plan (401k or the like) up to the match if not doing so already…or funding an IRA (or Roth IRA if eligible).
      iv. Saving for important items like a house, more reliable (not necessarily new) car, or a wedding, etc.

v. NOTE: Make sure you take advantage of employer benefits such as life insurance, disability insurance and health insurance (Risk Management). It is a mistake to "save money" by not having insurance.

II. Staring Your Financial Plan – Setting Goals and Targets (Ages 30 to 50):

Now that you know where your money is going and that you are better in charge of your finances, you can start setting goals and determining the strategies to achieve them. This is a good time to interview a CPA and/or a Financial Advisor to give you advice on how best to reach these goals.

1. **Financial Goals:** You should know have a budget and a handle on your fixed expenses, discretionary expenses and discretionary income. You should also have started a savings plan at some level and hopefully have taken advantage of your employer benefits. Now you can start identifying and planning to meet your longer term goals and "checking things off the list"…and therefore feeling less stress and making more confident financial decisions.
   a. Retirement: When do you want to retire? Who really knows for sure, but you can set a target to see how much you will need to save (and what returns your need…I call it your "hurdle rate") to meet your retirement goals. Having these targets will help you figure out how much you need in savings. Remember, you can borrow for a house, borrow for college…but there is no "retirement loan" – other than maybe a reverse mortgage. A financial advisor and/or a CPA should be able to help you come up with the amounts and recommend the types of accounts that help you best from a tax standpoint (such as IRAs vs. 401k vs. Roth IRA, etc.)
   b. Basic Estate Planning: It is now time to meet with an attorney to get your affairs in order. You need to get Wills, Trusts, Powers of attorney and Life/Disability Insurance to help make sure your family is OK if something happens to you. ESPECIALLY IF YOU HAVE CHILDREN
   c. College Planning: Everyone worries about the high cost of college. Depending on your goals and if you start early, you can either pay for, make a dent or at least get to a goal for future spending without taking on too much student debt (or like me none as I started early for my kids…both in college now with no worries). See a planner on this to help with funding, FAFSA review and/or
   d. House or Other Goals: If you and your family have specific goals (like an upgrade to your house or a vacation house), don't guess, but work with a financial advisor to see how these larger purchases can affect your other goals so you can Prioritize vs. guess and worry.

2. **Income and Money Goals:** This is a good time to check and see if your choices in terms of your career and other financial choices will help you meet your goals. What are your options if your current income won't get you where you want to go? You can meet with your spouse, family and your financial team to determine alternatives such as:
    a. Education: Can or should you go back and get another degree, higher degree (like an MBA) or retraining for another field (I did this around age 25)
    b. Married: Does your spouse work? If not, perhaps there is a way for them to earn money.
    c. Second Job: If you really have important goals you can't reach, would a second job help (even if not full time)?
    d. Passive or Rental Income: If you did well on preparing your foundational level, perhaps you made smart choices and improved your credit to where you could either invest in and/or get involved in areas to get passive income such as investments that pay rents or income (like franchises, rental properties and/or other investments). I call this "mailbox money" – where your money and investments are earning money for you to save and or re-invest/re-deploy towards other goals (I love this area).
    e. Business Owner: Are you in a place to start your own business to make more money…it would be a big step, but with proper planning it may be a good option (I did this around age 28)
    f. Bottom Line: Is your skillset and time best utilized to earn the amounts you need to best reach your goals.

III. Pre-Retirement Planning Tune-up – Updating Your Goals and Targets (Ages 50 to 65):
Now that you have accomplished I and II above, it is time to really sharpen the pencil and solidify your longer term goals to see if you are on track or whether you need to close the retirement income gap!

As you get closer to retirement, it is really important to create a more detailed Retirement and Financial Plan. Don't just rely on tools like online financial calculators. At this point it is important to consider having a financial and tax advisory team that can give you good advice to finalize your accumulation targets, know the risks that can help you miss your goals and to start planning for eventual retirement income – hopefully with an eye towards tax optimization. At STA Wealth, I created a system that I call Planning for Retirement the R.I.T.E. Way™ (Retirement Income Tax Efficiently), which may be used as a tool to help create a plan.

1. Retirement: Now is the time to better look at what your retirement budget really would be (possibly very different from your working years…and includes healthcare, etc.). Start looking at the tax issues and seeing if you need to start saving in other buckets. I

like diversification between tax-deferred, taxable and tax-free – gives me multiple "buckets" to draw money from in retirement. It is also important to "stress test" your retirement to know what the risks are of missing your goals (for portfolios - too much risk, not enough risk, not enough diversification, etc.) and to really look at multiple what if Scenarios such as:

   a. Varying Retirement Dates
   b. Varying Spending in Retirement
   c. Looking at Various "Hurdle" Rates of Return
   d. Looking at changes in Tax law
   e. Longer life expectancy (longevity risk)
   f. Starting to learn how to maximize your employer plans

2. Advanced Estate Planning: Depending on your estate level, now is the time to possibly look at more advanced planning (especially if your estate is much larger and/or if you have large charitable intentions). It may also be a good time to look at minimizing risks by looking into new insurance such as long-term care insurance (taking that worry away) – especially if you are married and worry about spending the retirement nest egg if one of you has a significant health event.

3. Tax Planning: As mentioned in the R.I.T.E. methodology above, the closer you get to retirement, the more important it is to know how your retirement nest egg will be taxed…and plan for the ultimate distributions (sometimes called "retirement paycheck") more tax efficiently – there are optimization strategies. Especially true if you have complex assets such as Pensions, Deferred Compensation, Employer Stock plans or real estate.

4. Social Security and Medicare: Start learning about Social Security and Medicare and how to maximize/optimize their use in retirement.

5. Changes Needed – if Any: This is the perfect time to look at changes that need to be made to your plan to help you truly reach your goals! By knowing these facts, you can take much of the worry out of retirement.

IV. Retirement Planning – Setting Goals and Targets (Ages 65 to ??):

If you have done well in steps I, II and III, this part should be easier. Now it is time to really look at the long-term, but to really tighten up the plan for the first several years in retirement. You must be able to answer the question "Am I ready to retire?".

As you get enter retirement, it is really important to "finalize" your detailed Retirement and Financial Plan, as, there is now almost no room for error. Therefore, at this point it may be imperative to consider having a financial and tax advisory team that can give you good advice to finalize your accumulation targets, know the risks that can help you miss your goals and to start planning for eventual retirement income – hopefully with an eye towards tax optimization. Again, at STA Wealth, I created as system that I call Planning for Retirement the R.I.T.E. Way™ (Retirement Income Tax Efficiently) - taxes take a HUGE bite out of your retirement nest egg especially if you saved the majority in tax-deferred accounts like Pensions, 401ks and IRAs. Thus if you properly planned along the way, you can take credit for saving yourself the worry that some haven't thought about until retirement.

1. Retirement: "Finalize" your retirement budget (but you will need to look at this annually). Plan for the first 1-3 years in retirement. Optimize for Social Security, Pension Elections, etc. Through this, you can have a tax optimization plan for each year. Also, be aware that you may have spending contingencies not always expected, so it is really important to have a nice cash cushion for things like unexpected travel, health expenses or other cash needs without having to draw all from investments in the event of a down market. It is also important to "stress test" your retirement again to better know what the risks are of missing your goals (for portfolios - too much risk, not enough risk, not enough diversification, etc.) and to really look at multiple what if Scenarios such as:
    a. Varying Retirement Dates
    b. Varying Spending in Retirement
    c. Looking at Various "Hurdle" Rates of Return
    d. Looking at changes in Tax law

2. Advanced Estate Planning: Depending on your estate level, now is the time to possibly look at more advanced planning (especially if your estate is much larger and/or if you have large charitable intentions). It may also be a good time to look at minimizing risks by looking into new insurance such as long-term care insurance (taking that worry away) – especially if you are married and worry about spending the retirement nest egg if one of you has a significant health event.

3. Tax Planning: As mentioned in the R.I.T.E. methodology above, the closer you get to retirement, the more important it is to know how your retirement nest egg will be taxed…and plan for the ultimate distributions (sometimes called "retirement paycheck") more tax efficiently – there are optimization strategies. Especially true if you have complex assets such as Pensions, Deferred Compensation, Employer stock plans or real estate. Each year depending on your expected income and the taxes in effect you can

optimize which funds to draw from to best meet your goals – especially if you set up the buckets described in earlier stages.

4. Social Security and Medicare: Get with your financial advisor to learn your options and learn how to best maximize your situation in terms of your Social Security and Medicare options. Planning correctly in these areas can really be beneficial and if you know the RIGHT rules and YOUR OPTIONS, you can make better decisions.

5. Changes Needed – if Any: This is the perfect time to look at changes that need to be made to your plan to help you truly reach your goals! By knowing these facts, you can take much of the worry out of retirement.