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Financial Planning for Every Stage of Life

When you're 25 years old, it's tough to imagine saving for retirement. It's tempting to say, "Why worry? It's a long way off!"

Then the years fly by and you're in your mid-30s, married and own a house. In your 40s you might have kids and get caught up in their activities – and expenses – and/or take exotic vacations. Pretty soon you're much closer to retirement and possibly the start of your kids' college start date with not a lot to show for it.

The solution? Start saving and investing early and be consistent. And, don't forget estate planning for the unexpected situations in life, said David Richter, chief investment officer and managing director at Arboretum Wealth & Trust Management in Lisle.

Here is a look at financial planning for different stages in life:

The 20s

At this stage, Richter said his advice hews closely to what parents likely would tell their kids: "Save your money."

The most logical way is through a 401K or IRA. If your company has a 401K match, it's a "free raise" for employees who contribute enough to earn the match, he said.

"When you take the money right out of the payroll somehow it seems less painful," he said. "You need to get better savings habits and build that discipline. If you never had the money, you're not going to miss it."

Because of the longer time frame before retirement, people in their 20s can be much more aggressive with their investments.

"Let the market do its magic over time," he said.

The 30s

During this time, people often get married, buy a house and possibly have kids, which can "put a damper on the ability to save."

But, there's likely another savings task to start – putting money away for college.

The ideal vehicle for college savings is a tax-deferred 529 plan. There are "tons out there" across the country, including Illinois-based ones that can provide a tax break for parents, Richter said.

The 40s

As retirement draws closer in the late 40s, you ought to think about making your stock portfolio less aggressive, he said. For example, move from small cap and emerging market funds to large cap stocks.

Also, be sure your life insurance is up-to-date and adequate to cover your family's needs.

The 50s and beyond

Traditionally, people would try to save enough money to live comfortably into their 80s. However, as life expectancy continues to increase, planning to live into the 90s is more realistic.

How can you reach your financial goals for the long term? Create a plan and stick to it, even when the stock market is on a roller-coaster ride. The plan should have realistically set allocations with an appropriate amount of risk so that you won't panic when the market goes down, Richter said.

"People who bailed out of the market in 2008 were hurt because they didn't have the discipline to stick with what they were doing," he said.

The importance of estate planning

When people hear about estate planning, "it sounds like something only for old people, but it really shouldn't be," Richter said.

It's important to plan for unexpected events throughout your adult life, which is why estate planning ought to be part of financial planning conversations as early as the 20s.

"It's something that applies to the whole range of your life," Richter said.

For example, an estate plan allows you to spell out who will make financial decisions if you become incapacitated. It's especially important if you have children and need to allocate funds for college and/or special medical needs.

If you have designated a family or friend as trustee, you need to realize they aren't regulated or audited. Besides regulatory oversight, corporate trustees use their experience and expertise to ensure your best interests are at the center of every decision.