Financial Plan for Your 30s

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Getting Started

In their 30s, many workers have an established job and cash flow. With these in place, it is time to start being very intentional with money. To reach financial goals such as home ownership, starting a family, saving for children's higher education, and retirement, simply spending what is available is no longer an option.

It's time to start budgeting, building an emergency fund, and taking advantage of retirement planning opportunities. It is also advisable to get some basic estate planning in place.

Budgeting

Creating a budget is the first step in financial planning. To do this, you must first understand the resources you have coming in and how you are spending them. From there, you can find the difference between resources and spending, separate essential from nonessential expenditures, and make appropriate adjustments. Make sure to allocate a portion of your budget for debt payments, if applicable, and for savings and investment.

Pay off debt.

Revolving credit accounts, such as credit cards, can easily drain a budget. Begin by paying off your highest interest accounts first, while making the minimum payment on the rest. In this way, you will reduce your overall debt more quickly than if you were to make equal payments to all of your creditors.

What about school loans?

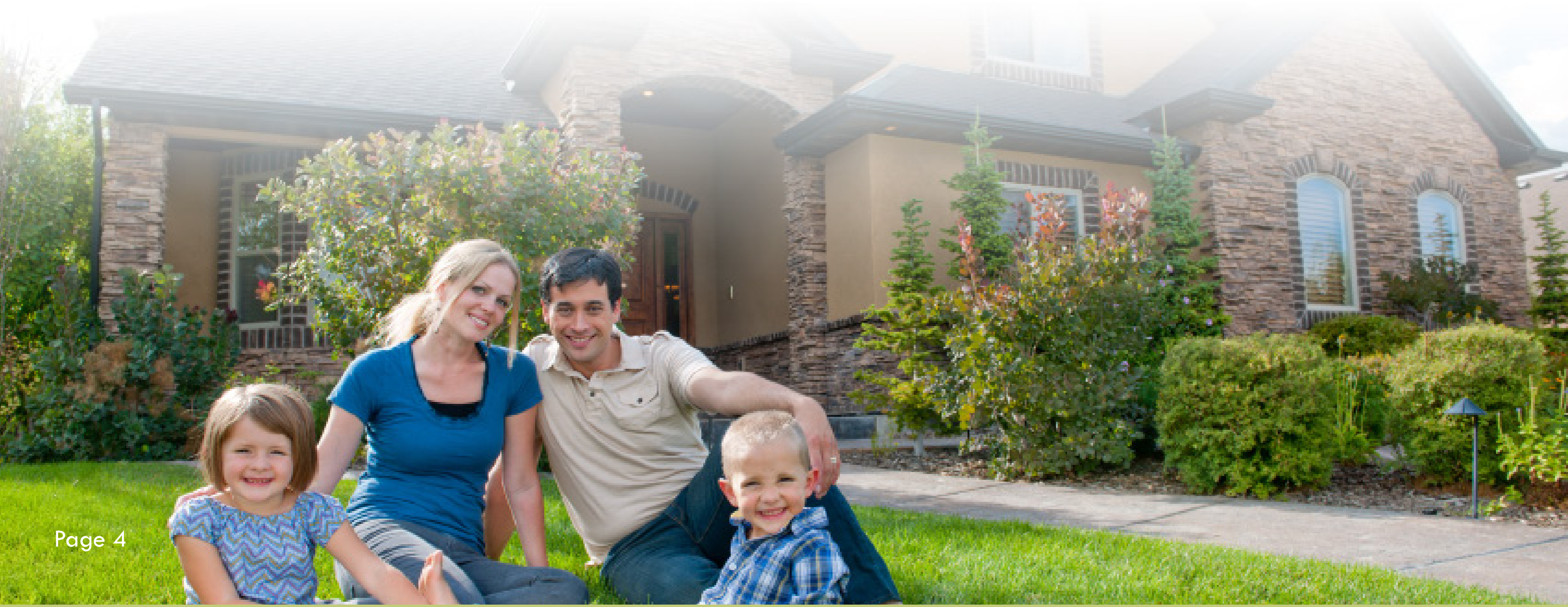
Many borrowers are anxious to pay off their school loans. These often constitute a young adults' largest source of debt before they buy a home. Aggressively paying down student loans, however, is often not the most financially advantageous approach. Because student loans often carry very low interest rates, funds allocated toward debt payments are often more effectively spent elsewhere until higher-interest debt is paid off. To manage your student loan debt, look into loan consolidation, income-based repayment, and forgiveness options for federal loans. See the U.S. Department of Education website for details.

Budgeting CONTINUED

Should I take on a mortgage?

Different rules of thumb exist for determining whether buying a home is the right financial move at the moment. Learnvest suggests that if your mortgage payment plus other essential expenses would consume more than 50% of your net monthly income, then it's too much at the moment. Forbes, on the other hand, recommends going to a lender to get preapproved for a home loan as a first step. Rather than assuming that your preapproval amount is the maximum you should spend on a home, however, they suggest reducing the preapproval amount by 20% and looking for homes in that price range.

If you do decide to purchase a home, be sure to do it with tax planning in mind. Most people understand that mortgage interest is tax deductible, but fewer understand that additional benefits may be available. The Take Credit Mortgage Credit Certificate Program, for example, is a federal tax credit available to low- and moderate- income first time homebuyers (including those who have not owned interest in a home in the preceding three years). **In Iowa, the credit amounts to 30% of mortgage interest paid during the year, up to $2,000.** This is a tremendous opportunity for those who qualify, as tax credits more dramatically affect how much tax is owed than deductions. Some veterans and those who buy homes in targeted areas, whether or not they are previous homeowners, may also qualify for this program. See the Iowa Finance Authority website for details, and always consult a tax professional to ensure that you are claiming all of the deductions and credits available to you.



Emergency Reserve

It is generally recommended to **have an emergency fund that is sufficient to cover expenses for 3-6 months**, depending on individual circumstances. If you do not yet have such a fund in place, then dedicate part of your monthly budget to building one. Remember that in order to be available for emergencies, these funds must be readily available. Savings and money market accounts are common choices for an emergency reserve. These earn modest interest while remaining immediately accessible.

Retirement Planning

401(k)

If your employer offers a 401(k) or similar plan, it is likely the most beneficial vehicle you have available for retirement savings. Many employers offer matching contributions (with limits) to the plans they sponsor for their employees. Not all offer this, however, so make sure to check the specific provisions of the plan your employer sponsors. In general, it is a good idea to **contribute the maximum amount that your employer will match**, assuming this can work into your budget. Doubling the deposits you make into your retirement account, especially early in your career, is an excellent opportunity that can quickly and dramatically increase your retirement fund and profoundly affect your retirement lifestyle. Early in your career, consider allocating a large share of your 401(k) to equities. This allows you to take advantage of larger potential gains while having time to ride out market volatility.

TOTAL AFTER 35 YEARS: $756,477

401(k) Employee Savings Plan:

Percent to Contribute:	10%
Annual Salary:	$40,000
Annual Salary Increase:	0%
Current Age:	30
Age of Retirement:	65
Current 401(k) Balance:	$1000
Annual Rate of Return:	7%

Total Employee Contributions: $140,000

401(k) Employer Match:

Employer Match:	50%
Employer Match Ends:	6%

Total Employer Contributions: $42,000

The chart above is an example. Visit the AARP website to calculate your personal 401(k) savings.

Retirement Planning CONTINUED

IRA

If you do not have access to an employer-sponsored plan, either a traditional or Roth IRA is a good alternative. Which will be most beneficial to you depends largely upon your current vs. projected income levels and the likelihood that you will need to access the funds prior to retirement.

First, you must determine your eligibility. While traditional IRAs are available to people of all income levels, Roth IRAs are subject to income limits. Depending on your income, you may be able to contribute the full $5,500 allowable for 2014, a reduced amount, or nothing to a Roth IRA. (see chart below)

Roth IRA Income Limits, 2014

FILING STATUS	MAGI	ALLOWABLE CONTRIBUTION
Married, Filing Jointly	Below $181,000	Up to the limit
	$181,000 - $191,000	A reduced amount
	$191,000 or over	0
Married, Filing Separately *(if lived with spouse any time during year)*	Below $10,000	A reduced amount
	$10,000 or over	0
Single, Head of Household, or Married Filing Separately *(if did not live with spouse during year)*	Below $114,000	Up to the limit
	$114,000 - $129,000	A reduced amount
	$129,000 or over	0

Retirement Planning CONTINUED

If you are eligible for both a traditional and a Roth IRA, you will have to decide where it is best to place your resources. **Contributions to a traditional IRA are tax-deductible, and withdrawals are taxed. Contributions to a Roth IRA, on the other hand, are not tax deductible, but withdrawals are tax free.** If you are currently in a high tax bracket and expect to have a lower income in retirement, then the tax deductibility of traditional IRA contributions make this type of IRA an attractive choice. If, on the other hand, you currently pay little or no income tax, a Roth may be more beneficial, as the money you contribute now can grow over many years and provide you with tax free income in the future.

Another consideration is the availability of your contributions. If you think you may need the money you're contributing before you reach retirement age, then a Roth is the safest bet. **You can access Roth contributions (but not their earnings) at any time for any reason without penalty. Contributions to a traditional IRA, on the other hand, are subject to income tax in addition to a 10% penalty if withdrawn before age 59 ½, unless an exception applies.** Exceptions exist for circumstances such as disability, qualified educational expenses, substantial unreimbursed medical expenses, and purchasing a first home. Even if you can access your retirement funds without penalty, however, it does not follow that you should. Remember that this money is set aside to provide you with a comfortable lifestyle when you are unable or no longer wish to earn sufficient income from work. For today's expenses, it is best to use funds designated for today.

Personal Investment Account

For greater liquidity, consider systematic investing in a personal account. Systematic investing involves putting aside a fixed dollar amount toward investment securities on a periodic basis (monthly, for example). Not only is this money more accessible, but it also allows you to build your portfolio over time and take advantage of more buying power when prices are low. Consult with a financial services professional about whether a personal investment account is a good fit for you.

College Planning

Beginning to save for your children's higher education expenses while they are very young can make a tremendous impact on how much you will be able to save by the time they graduate high school. **There are many tax-advantaged plans, including 529 plans, Coverdell ESAs, savings bonds, and UTMA custodial accounts, that help to make funding a college education more affordable.** Consult with a financial planning professional for more information and assistance in choosing the best plan for your family.

The chart below illustrates the amounts you could have saved by the time your child turns 18, given various monthly investments.*

CHILD'S AGE NOW	$100/MONTH	$200/MONTH	$300/MONTH	$400/MONTH
NEWBORN	$38,735	$77,471	$116,208	$154,941
4	$26,231	$52,462	$78,693	$104,924
8	$16,388	$32,776	$49,164	$65,552
10	$12,283	$24,566	$36,849	$49,132
14	$5,410	$10,820	$16,230	$21,640
16	$2,543	$5,086	$7,629	$10,172

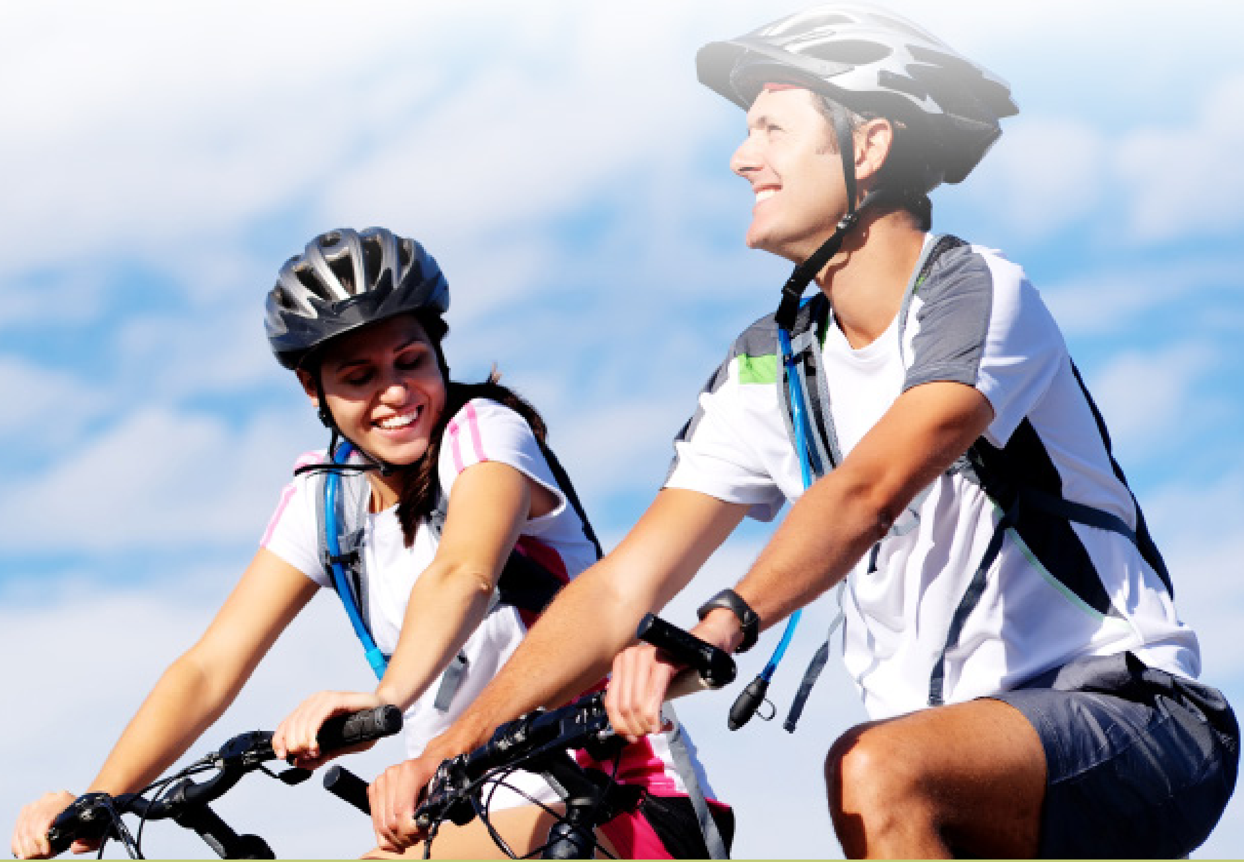
**Amounts assume a 6% rate of return compounded annually. Consult a professional to determine the best investment options for you and to discuss potential return rates.*

Estate Planning

As little as 30-somethings like to think about estate planning, it really is essential to those who are married, and especially to those who have children. If both partners earn incomes, then they rely upon both of those incomes in their budget. The loss of one of them can be devastating, so it's important to protect your spouse from the consequences of your income suddenly disappearing. When a couple has children, the loss of a non-earning parent can also have disastrous financial effects, as the labor that parent used to perform must be replaced, often by paid help.

Life Insurance

Term life insurance is a popular choice for young couples. The rates are relatively low, and they provide a guaranteed death benefit for a set term of years. A term life policy can provide the security of ensuring that the surviving partner and children can continue to live in a family home, pay off debts, and meet daily expenses at a time when financial demands are greatest.



Estate Planning CONTINUED

Will

The will is the cornerstone of estate planning. A will names heirs and distributes property among them according to the testator's wishes. **Failure to have a will results in the probate court distributing the decedent's property according to state intestacy laws,** which may or may not align with what (s)he would have wanted. A will also names a legal guardian for any surviving children and an executor to manage the estate.

Having a will in place allows you to better ensure that your loved ones are cared for as you would wish. Setting up a trust for your beneficiaries provides the added advantages of avoiding probate and providing for paced and/or conditioned distributions for children. For example, you may wish to provide for your child to receive a certain sum at 18, another upon college graduation, and receive the balance of the bequest at 30. However you wish to structure distributions, your will is the primary place to make your intentions clear.

Powers of Attorney

A power of attorney enables another person to make decisions on your behalf in the event that you are unable to do so. It is a good idea to designate a power of attorney both for finances and for medical care. This may or may not be the same person. Your attorney-in-fact (the person with power of attorney) for health care is obligated to abide by your wishes to the extent that (s)he is aware of them, so be sure to communicate your wishes fully and clearly to whomever you designate.

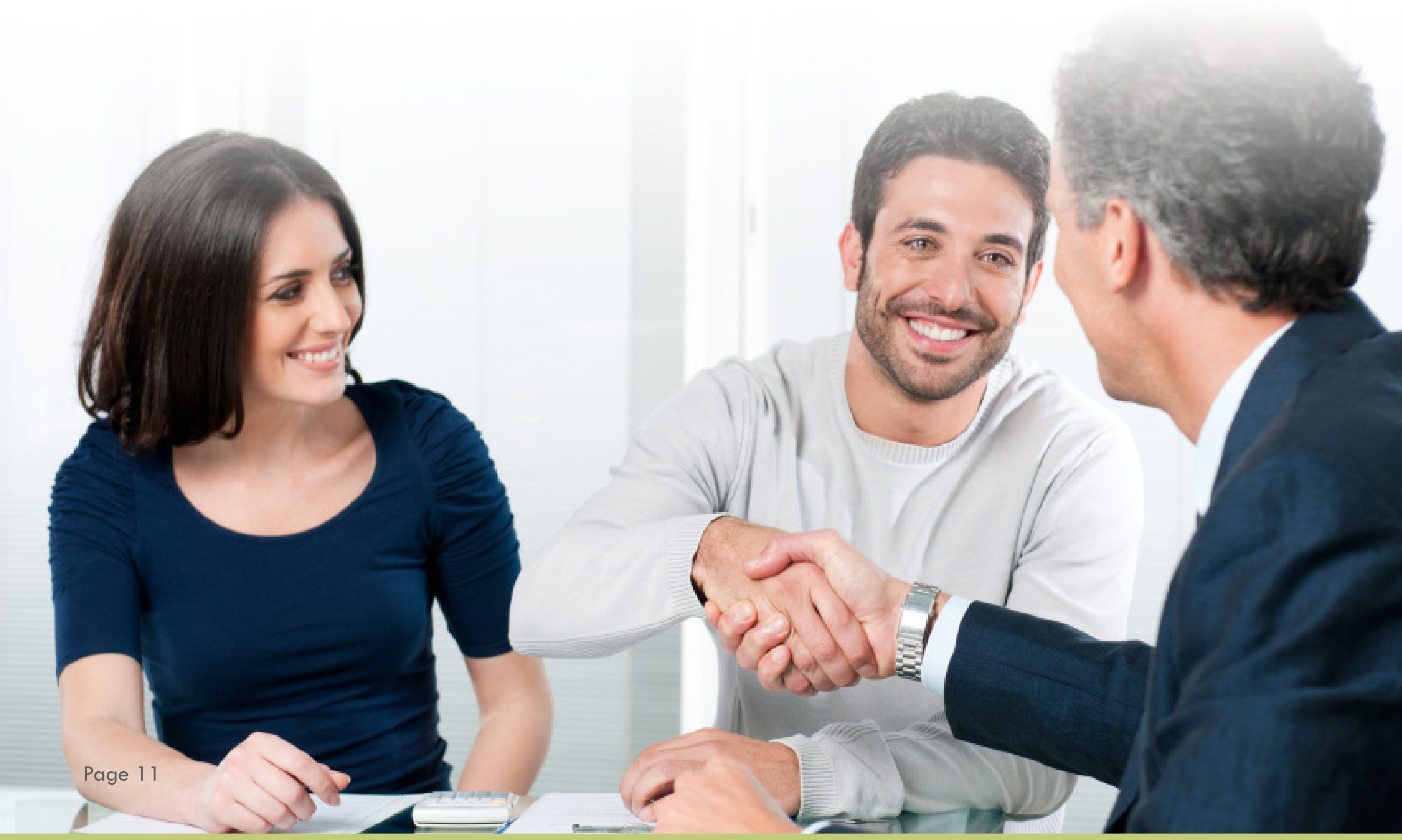
Estate Planning CONTINUED

Living Will

Many people value the security of a living will. This document allows you to determine what types of medical interventions you do and do not wish to receive in the event that you are in a terminal medical condition. Speak with an attorney about setting up a will, powers of attorney, and a living will that fit your wishes and needs.

Beneficiary Designation

It is a good idea to revisit your estate planning documents, as well as your retirement plan, annually to ensure that beneficiaries are designated as you would like. As the circumstances of life change, we don't always remember to keep these details up to date. Making a yearly practice of checking in will help to ensure they remain consistent with your current wishes.



Boelman Shaw Capital Partners

Your 30s is a time to get serious about financial planning. The professionals at Boelman Shaw Capital Partners can help. We provide both financial planning and tax planning to make the most of your savings and investment potential. Contact us for a free financial consultation, and find out how we can help you get on the path to realizing your financial goals.

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